

Original Application

Watauga Orthopaedics,
PLC

CN1701-001

JAN 6 '17 AM 11:31

CERTIFICATE OF NEED APPLICATION

FOR

WATAUGA ORTHOPAEDICS, PLC

Initiation of In-House MRI Services

Sullivan County, Tennessee

January 6, 2017

Contact Person:

**Jerry W. Taylor, Esq.
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615-724-3247**



State of Tennessee

Health Services and Development Agency

Andrew Jackson Building, 9th Floor, 502 Deaderick Street, Nashville, TN 37243
www.tn.gov/hsda Phone: 615-741-2364 Fax: 615-741-9884

CERTIFICATE OF NEED APPLICATION

SECTION A: APPLICANT PROFILE

1. Name of Facility, Agency, or Institution

Watauga Orthopaedics, PLC
Name

875 Larry Neil Way
Street or Route

Sullivan
County

Kingsport
City

TN
State

37660
Zip Code

Website address: _____

*Note: The facility's name and address **must be** the name and address of the project and **must be** consistent with the Publication of Intent.*

2. Contact Person Available for Responses to Questions

Jerry W. Taylor
Name

Attorney
Title

Burr & Forman, LLP
Company Name

jtaylor@burr.com
Email address

511 Union Street, Suite 2300
Street or Route

Nashville
City

TN
State

37219
Zip Code

Attorney
Association with Owner

615-724-3247
Phone Number

615-724-3248
Fax Number

NOTE: **Section A** is intended to give the applicant an opportunity to describe the project. **Section B** addresses how the project relates to the criteria for a Certificate of Need by addressing: Need, Economic Feasibility, Contribution to the Orderly Development of Health Care, and the Quality Measures.

Please answer all questions on **8½" X 11" white paper, clearly typed and spaced, single or double-sided, in order and sequentially numbered. In answering, please type the question and the response.** All questions must be answered. If an item does not apply, please indicate "N/A" (not applicable). **Attach appropriate documentation as an Appendix at the end of the application and reference the applicable Item Number on the attachment, i.e., Attachment**

A.1, A.2, etc. The last page of the application should be a completed signed and notarized affidavit.

Corporate documentation is attached as Attachment Section A, 1.

3. SECTION A: EXECUTIVE SUMMARY

A. Overview

Please provide an overview not to exceed three pages in total explaining each numbered point.

- 1) Description – Address the establishment of a health care institution, initiation of health services, bed complement changes, and/or how this project relates to any other outstanding but unimplemented certificates of need held by the applicant;**

The applicant, Watauga Orthopaedics, PLC, ("Watauga") seeks authorization for the initiation of Magnetic Resonance Imaging (MRI) services at its Kingsport location and the acquisition of a MRI extremities unit. Watauga already provides MRI service on a whole body MRI unit at its Johnson City office. Services to be provided are MRI scans to both pediatrics and adults. No facility licensure is sought. The MRI will be located in existing space in Watauga Orthopaedic's clinical office space located at 875 Larry Neil Way, Kingsport, (Sullivan County) Tennessee. No new construction is involved; only minor renovation of currently unused space is required.

- 2) Ownership structure;**

Watauga Orthopaedics, PLC is a professional limited liability company. All of its owners/members are licensed physicians.

- 3) Service area;**

The primary service area (PSA) consists of Sullivan, Hawkins, Washington, Greene, and Carter Counties in Tennessee. The secondary service area (SSA) consists of Lee and Scott Counties in Virginia. The PSA and SSA accounted for 79.8% of the patient encounters at the Kingsport office of Watauga 2013-2015.

- 4) Existing similar service providers;**

In 2015 there were 18 MRI providers in the PSA, operating a total of 21.6 FTE MRI units. The average number of scans per unit of the reporting units was 2,837. This is just slightly below the utilization threshold of 2,880 scans per unit for non-specialty units. In 2014, the number of scans per unit was 2,286. This reflects a growth of 24% in utilization 2014-2015.

- 5) Project cost;**

The total estimated project cost is \$901,339, not including the CON filing fee of \$15,000. The cost of the MRI unit is \$550,000 with an addition cost of \$140,000 for the maintenance agreement. The cost of minor renovation is \$50,000.

6) Funding;

Funding will be provided through a loan from a third party lender. Preliminary terms are \$550,000 at 5% over 84 months.

7) Financial Feasibility including when the proposal will realize a positive financial margin; and

As reflected on the Projected Data Chart, the proposed MRI service is profitable from the outset.

8) Staffing.

The only required staffing is one (1) FTE MRI technologist.

B. Rationale for Approval

A certificate of need can only be granted when a project is necessary to provide needed health care in the area to be served, can be economically accomplished and maintained, will provide health care that meets appropriate quality standards, and will contribute to the orderly development of adequate and effective health care in the service area. This section should provide rationale for each criterion using the data and information points provided in Section B. of this application. Please summarize in one page or less each of the criteria:

1) Need;

Watauga already provides MRI services on a whole body scanner at its Johnson City office, some 30 miles to the southeast of Kingsport. It has a healthy utilization of 2,465 scans in 2015. The extremities unit, which is capable of providing most but not all of the clinical applications of a whole body unit, will be a significant health care convenience for Watauga patients who live and/or work to the north, east and west of Kingsport.

The addition of the Kingsport MRI unit will streamline care because patients will have access to their surgeon and the MRI results same day. It will also help reduce out of pocket costs for patients because with same day access it can reduce the need for multiple visits.

The Watauga surgeons in the Kingsport office order a substantial number of MRI scans annually. Many are performed in the Johnson City office, but other are performed at other area providers. Watauga will be adding three (3) additional surgeons by the summer of 2018, further increasing the need for the MRI service.

2) Economic Feasibility;

This is an economically feasible proposal. Existing space in the Watauga offices is available with only minor renovation and installations costs being required. The MRI unit is reasonably priced at approximately \$550,000. The project is profitable from the outset. Required funding is available from a third party lender at market rates and terms.

3) Appropriate Quality Standards; and

The Watauga MRI service at the Johnson City office is accredited by the American College of Radiology (ACR) and the proposed service and the Kingsport office will also be ACR accredited. Watauga will maintain compliance with all ACR recommendations and requirements, assuring high quality care will be provided.

4) Orderly Development to adequate and effective health care.

The proposal will contribute to the orderly development of health care services in the service area. The proposed extremities MRI service at the Kingsport location of Watauga Orthopaedics will allow patients of Watauga to receive MRI scans closer to their homes and/or places of employment. It will also allow same day access to MRI scans. This will result in significant conveniences for the patients of Watauga. There has been significant growth in MRI utilization in the service area over the past few years. MRI utilization increased 24% in the PSA 2014-2015. This additional MRI option will help absorb some of this growth.

There should be little negative impact to existing providers. MRI providers in the PSA area averaged 2,837 scans per unit in 2015. This is just slightly below the utilization threshold of 2,880 scans per unit. Many of the projected scans at the Watauga Kingsport office will be re-directed from the Watauga Johnson City office, further decreasing the impact on any other providers.

C. Consent Calendar Justification

If Consent Calendar is requested, please provide the rationale for an expedited review. N/A.

A request for Consent Calendar must be in the form of a written communication to the Agency's Executive Director at the time the application is filed.

4. SECTION A: PROJECT DETAILS

Owner of the Facility, Agency or Institution

A. Watauga Orthopaedics, PLC _____ 423-282-9011 _____
Name Phone Number
2410 Susannah Street _____ Washington _____
Street or Route County
Johnson City _____ TN _____ 37601 _____
City State Zip Code

B. Type of Ownership of Control (Check One)

A. Sole Proprietorship _____	F. Government (State of TN or _____ Political Subdivision)
B. Partnership _____	G. Joint Venture _____
C. Limited Partnership _____	H. Limited Liability Company <u> X </u>
D. Corporation (For Profit) _____	I. Other (Specify) _____
E. Corporation (Not-for-Profit) _____	

Attach a copy of the partnership agreement, or corporate charter and certificate of corporate existence. Please provide documentation of the active status of the entity from the Tennessee Secretary of State's web-site at <https://tnbear.tn.gov/ECommerce/FilingSearch.aspx>. Attachment Section A-4A.

Describe the existing or proposed ownership structure of the applicant, including an ownership structure organizational chart. Explain the corporate structure and the manner in which all entities of the ownership structure relate to the applicant. As applicable, identify the members of the ownership entity and each member's percentage of ownership, for those members with 5% ownership (direct or indirect) interest.

5. Name of Management/Operating Entity (If Applicable)

N/A _____
Name

Street or Route _____ County _____

City _____ State _____ Zip Code _____
Website address: _____

For new facilities or existing facilities without a current management agreement, attach a copy of a draft management agreement that at least includes the anticipated scope of management services to be provided, the anticipated term of the agreement, and the anticipated management fee payment methodology and schedule. For facilities with existing management agreements, attach a copy of the fully executed final contract. Attachment Section A-5.

6A. Legal Interest in the Site of the Institution (Check One)

- | | | | |
|----------------------------|----------|--------------------|-------|
| A. Ownership | _____ | D. Option to Lease | _____ |
| B. Option to Purchase | _____ | E. Other (Specify) | _____ |
| C. Lease of <u>2</u> Years | <u>X</u> | | |

Check appropriate line above: For applicants or applicant's parent company/owner that currently own the building/land for the project location, attach a copy of the title/deed. For applicants or applicant's parent company/owner that currently lease the building/land for the project location, attach a copy of the fully executed lease agreement. For projects where the location of the project has not been secured, attach a fully executed document including Option to Purchase Agreement, Option to Lease Agreement, or other appropriate documentation. Option to Purchase Agreements must include anticipated purchase price. Lease/Option to Lease Agreements must include the actual/anticipated term of the agreement and actual/anticipated lease expense. The legal interests described herein must be valid on the date of the Agency's consideration of the certificate of need application.

A copy of the lease agreement is attached as Attachment Section A, 6A.

6B. Attach a copy of the site's plot plan, floor plan, and if applicable, public transportation route to and from the site on an 8 1/2" x 11" sheet of white paper, single or double-sided. DO NOT SUBMIT BLUEPRINTS. Simple line drawings should be submitted and need not be drawn to scale.

1) Plot Plan must include:

- a. Size of site (*in acres*);
- b. Location of structure on the site;
- c. Location of the proposed construction/renovation; and
- d. Names of streets, roads or highway that cross or border the site.

A plot plan is attached as Attachment Section A, 6B (1).

2) Attach a floor plan drawing for the facility which includes legible labeling of patient care rooms (noting private or semi-private), ancillary areas, equipment areas, etc. On an 8 1/2 by 11 sheet of paper or as many as necessary to illustrate the floor plan.

A floor plan is attached as Attachment Section A, 6B (2).

3) Describe the relationship of the site to public transportation routes, if any, and to any highway or major road developments in the area. Describe the accessibility of the proposed site to patients/clients.

7. Type of Institution (Check as appropriate--more than one response may apply)

- | | |
|---|--|
| A. Hospital (Specify) _____ | H. Nursing Home _____ |
| B. Ambulatory Surgical Treatment _____ | I. Outpatient Diagnostic Center _____ |
| Center (ASTC), Multi-Specialty _____ | J. Rehabilitation Facility _____ |
| C. ASTC, Single Specialty _____ | K. Residential Hospice _____ |
| D. Home Health Agency _____ | L. Nonresidential Substitution- _____ |
| E. Hospice _____ | Based Treatment Center for _____ |
| F. Mental Health Hospital _____ | Opiate Addiction _____ |
| G. Intellectual Disability _____ | M. Other (Specify) <u>Physician</u> <u>X</u> |
| Institutional Habilitation Facility _____ | <u>Practice</u> _____ |
| ICF/IID _____ | |

Check appropriate lines(s).

8. Purpose of Review (Check appropriate lines(s) – more than one response may apply)

- | | |
|---|------------------------------------|
| A. New Institution _____ | F. Change in Bed Complement _____ |
| B. Modifying an ASTC with _____ | [Please note the type of change |
| limitation still required per CON _____ | by underlining the appropriate |
| C. Addition of MRI Unit <u>X</u> | response: Increase, Decrease, |
| D. Pediatric MRI _____ | Designation, Distribution, |
| E. Initiation of Health Care _____ | Conversion, Relocation] |
| Service as defined in T.C.A. _____ | G. Satellite Emergency Dept. _____ |
| §68-11-1607(4) (Specify) <u>MRI</u> _____ | H. Change of Location _____ |
| <u>service at a new location</u> _____ | I. Other (Specify) _____ |

9. Medicaid/TennCare, Medicare Participation

MCO Contracts [Check all that apply]

X AmeriGroup X United Healthcare Community Plan ___ BlueCare ___ TennCare Select

Medicare Provider Number 3706248

Medicaid Provider Number 3706248

Certification Type Physician Group

If a new facility, will certification be sought for Medicare and/or Medicaid/TennCare?

Medicare ___ Yes ___ No X N/A Medicaid/TennCare ___ Yes ___ No X N/A

10. Bed Complement Data N/A

A. Please indicate current and proposed distribution and certification of facility beds.

	<u>Current Licensed</u>	<u>Beds Staffed</u>	<u>Beds Proposed</u>	<u>*Beds Approved</u>	<u>**Beds Exempted</u>	<u>TOTAL Beds at Completion</u>
1) Medical						
2) Surgical						
3) ICU/CCU						
4) Obstetrical						
5) NICU						
6) Pediatric						
7) Adult Psychiatric						
8) Geriatric Psychiatric						
9) Child/Adolescent Psychiatric						
10) Rehabilitation						
11) Adult Chemical Dependency						
12) Child/Adolescent Chemical Dependency						
13) Long-Term Care Hospital						
14) Swing Beds						
15) Nursing Home – SNF (Medicare only)						
16) Nursing Home – NF (Medicaid only)						
17) Nursing Home – SNF/NF (dually certified Medicare/Medicaid)						
18) Nursing Home – Licensed (non-certified)						
19) ICF/IID						
20) Residential Hospice						
TOTAL						

**Beds approved but not yet in service*

***Beds exempted under 10% per 3 year provision*

B. Describe the reasons for change in bed allocations and describe the impact the bed change will have on the applicant facility's existing services. Attachment Section A-10.

N/A

C. Please identify all the applicant's outstanding Certificate of Need projects that have a licensed bed change component. If applicable, complete chart below.

None

<u>CON Number(s)</u>	<u>CON Expiration Date</u>	<u>Total Licensed Beds Approved</u>

11. Home Health Care Organizations – Home Health Agency, Hospice Agency (excluding Residential Hospice), identify the following by checking all that apply: N/A

	Existing Licensed County	Parent Office County	Proposed Licensed County		Existing Licensed County	Parent Office County	Proposed Licensed County
Anderson	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Lauderdale	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Bedford	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Lawrence	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Benton	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Lewis	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Bledsoe	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Lincoln	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Blount	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Loudon	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Bradley	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	McMinn	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Campbell	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	McNairy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Cannon	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Macon	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carroll	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Madison	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Carter	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Marion	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Cheatham	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Marshall	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Chester	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Maury	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Claiborne	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Meigs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Clay	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Monroe	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Cocke	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Montgomery	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Coffee	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Moore	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Crockett	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Morgan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Cumberland	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Obion	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Davidson	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Overton	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Decatur	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Perry	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
DeKalb	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Pickett	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Dickson	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Polk	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Dyer	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Putnam	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Fayette	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Rhea	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Fentress	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Roane	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Franklin	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Robertson	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Gibson	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Rutherford	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Giles	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Scott	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Grainger	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Sequatchie	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Greene	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Sevier	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Grundy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Shelby	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Hamblen	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Smith	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Hamilton	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Stewart	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Hancock	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Sullivan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Hardeman	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Sumner	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Hardin	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Tipton	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Hawkins	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Trousdale	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Haywood	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Unicoi	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Henderson	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Union	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Henry	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Van Buren	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Hickman	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Warren	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Houston	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Washington	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Humphreys	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Wayne	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Jackson	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Weakley	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Jefferson	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	White	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Johnson	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Williamson	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Knox	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Wilson	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Lake	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>				

Unit/Department	Existing Location	Existing SF	Temporary Location	Proposed Final Location	Proposed Final Square Footage		
					Renovated	New	Total
MRI (currently unused storage)	1 st Floor	303	N/A	First floor (same space)	303		303
Unit/Department GSF Sub-Total							
Other GSF Total							
Total GSF		303			303		303
*Total Cost					\$50,000		303
**Cost Per Square Foot					\$165		\$165
<p>Cost per Square Foot Is Within Which Range</p> <p>According to the HSDA website, due to insufficient sample size, construction ranges for ODCs, the most closely analogous type of renovation project, are not available.</p> <p>(For quartile ranges, please refer to the Applicant's Toolbox on www.tn.gov/hsga)</p>					<input type="checkbox"/> Below 1 st Quartile <input type="checkbox"/> Between 1 st and 2 nd Quartile <input type="checkbox"/> Between 2 nd and 3 rd Quartile <input type="checkbox"/> Above 3 rd Quartile	<input type="checkbox"/> Below 1 st Quartile <input type="checkbox"/> Between 1 st and 2 nd Quartile <input type="checkbox"/> Between 2 nd and 3 rd Quartile <input type="checkbox"/> Above 3 rd Quartile	<input type="checkbox"/> Below 1 st Quartile <input type="checkbox"/> Between 1 st and 2 nd Quartile <input type="checkbox"/> Between 2 nd and 3 rd Quartile <input type="checkbox"/> Above 3 rd Quartile

13. MRI, PET, and/or Linear Accelerator

1. Describe the acquisition of any Magnetic Resonance Imaging (MRI) scanner that is adding a MRI scanner in counties with population less than 250,000 or initiation of pediatric MRI in counties with population greater than 250,000 and/or
2. Describe the acquisition of any Positron Emission Tomographer (PET) or Linear Accelerator if initiating the service by responding to the following:

A. Complete the chart below for acquired equipment.

<input type="checkbox"/> Linear Accelerator	Mev _____	Types: _____	<input type="checkbox"/> SRS <input type="checkbox"/> IMRT <input type="checkbox"/> IGRT <input type="checkbox"/> Other _____ <input type="checkbox"/> By Purchase	
	Total Cost*: _____		<input type="checkbox"/> By Lease	Expected Useful Life (yrs) _____
	<input type="checkbox"/> New	<input type="checkbox"/> Refurbished	<input type="checkbox"/> If not new, how old? (yrs) _____	

X MRI	Tesla: <u>0.3</u>	Magnet: _____	<input type="checkbox"/> Breast X Extremity <input type="checkbox"/> Open <input type="checkbox"/> Short Bore <input type="checkbox"/> Other _____ X By Purchase	
	Total Cost*: <u>\$690,000</u>		<input type="checkbox"/> By Lease	Expected Useful Life (yrs) _____
	X New	<input type="checkbox"/> Refurbished	<input type="checkbox"/> If not new, how old? (yrs) _____	

<input type="checkbox"/> PET	<input type="checkbox"/> PET only <input type="checkbox"/> PET/CT <input type="checkbox"/> PET/MRI <input type="checkbox"/> By Purchase			
	Total Cost*: _____		<input type="checkbox"/> By Lease	Expected Useful Life (yrs) _____
	<input type="checkbox"/> New	<input type="checkbox"/> Refurbished	<input type="checkbox"/> If not new, how old? (yrs) _____	

* As defined by Agency Rule 0720-9-.01(13)

- B. In the case of equipment purchase, include a quote and/or proposal from an equipment vendor. In the case of equipment lease, provide a draft lease or contract that at least includes the term of the lease and the anticipated lease payments along with the fair market value of the equipment.**

A copy of the equipment quote is attached as Attachment Section A, 13B.

- C. Compare lease cost of the equipment to its fair market value. Note: Per Agency Rule, the higher cost must be identified in the project cost chart.**

N/A.

D. Schedule of Operations:

Location	Days of Operation (Sunday through Saturday)	Hours of Operation (example: 8 am – 3 pm)
Fixed Site (Applicant)		
Watauga Orthopedics	Mon. - Fri. 8 AM - 5 PM	
Mobile Locations N/A (Applicant)		

E. Identify the clinical applications to be provided that apply to the project.

MRI scans of the upper and lower extremities. A list of CPT Codes is reflected below.

MRI			
CPT	Charge Amount	Medicare allowable	
72149	\$ 1,701	\$	295.09
72195	\$ 1,523	\$	342.88
73720	\$ 2,191	\$	460.29
73721	\$ 1,471	\$	217.40
72141	\$ 1,383	\$	206.63
72157	\$ 2,023	\$	350.06
73718	\$ 1,500	\$	333.15
72147	\$ 1,561	\$	295.55
72148	\$ 1,384	\$	205.66
72146	\$ 1,403	\$	206.63
72158	\$ 2,115	\$	348.78
73218	\$ 1,530	\$	333.15
73221	\$ 1,440	\$	217.08

F. If the equipment has been approved by the FDA within the last five years provide documentation of the same.

N/A. FDA approval for the unit was not granted within the last 5 years.

SECTION B: GENERAL CRITERIA FOR CERTIFICATE OF NEED

In accordance with T.C.A. § 68-11-1609(b), “no Certificate of Need shall be granted unless the action proposed in the application for such Certificate is necessary to provide needed health care in the area to be served, can be economically accomplished and maintained, will provide health care that meets appropriate quality standards, and will contribute to the orderly development of health care.” Further standards for guidance are provided in the State Health Plan developed pursuant to T.C.A. § 68-11-1625.

The following questions are listed according to the four criteria: (1) Need, (2) Economic Feasibility, (3) Applicable Quality Standards, and (4) Contribution to the Orderly Development of Health Care. Please respond to each question and provide underlying assumptions, data sources, and methodologies when appropriate. Please type each question and its response on an 8 1/2" x 11" white paper, single-sided or double sided. All exhibits and tables must be attached to the end of the application in correct sequence identifying the question(s) to which they refer, unless specified otherwise. *If a question does not apply to your project, indicate “Not Applicable (NA).”*

QUESTIONS

NEED

1. Provide a response to each criterion and standard in Certificate of Need Categories in the State Health Plan that are applicable to the proposed project. Criteria and standards can be obtained from the Tennessee Health Services and Development Agency or found on the Agency’s website at <http://www.tn.gov/hsda/article/hsda-criteria-and-standards>.

STATE HEALTH PLAN CERTIFICATE OF NEED STANDARDS AND CRITERIA FOR MAGNETIC RESONANCE IMAGING SERVICES

Need Standards for Specialty MRI Units

1. N/A. (Applies only to non-Specialty MRI Units).
2. Access to MRI Units. All applicants for any proposed new MRI Unit should document that the proposed location is accessible to approximately 75% of the Service Area’s population. Applications that include non-Tennessee counties in their proposed Service Areas should provide evidence of the number of existing MRI units that service the non-Tennessee counties and the impact on MRI unit utilization in the non-Tennessee counties, including the specific location of those units located in the non-Tennessee counties, their utilization rates, and their capacity (if that data are available).

This criterion does not appear to be applicable to a proposed MRI services limited to the patients of a physician practice group. The MRI services will only be accessible to the patients of Watauga Orthopaedics, and Watauga’s patients do not constitute 75% of the service area population.

3. Economic Efficiencies. All applicants for any proposed new MRI Unit should document that alternative shared services and lower cost technology

applications have been investigated and found less advantageous in terms of accessibility, availability, continuity, cost, and quality of care.

No more efficient alternatives were identified. This is an economically efficient proposal. Existing space in the Watauga offices is available with only minor renovation and installation costs being required. The MRI unit is reasonably priced at approximately \$550,000.

4. N/A. (Applies only to non-Specialty MRI Units).

5. **Need Standards for Specialty MRI Units.**

a. **Dedicated fixed or mobile Breast MRI Unit.**

N/A.

b. **Extremity MRI Unit.** An applicant proposing to institute a Dedicated fixed or mobile Extremity MRI Unit shall provide documentation of the total capacity of the proposed MRI Unit based on the number of days of operation each week, the number of days to be operated each year, the number of hours to be operated each day, and the average number of MRI procedures the unit is capable of performing each hour. The applicant shall then demonstrate that annual utilization of the proposed MRI Unit in the third year of operation is reasonably projected to be at least 80 per cent of the total capacity. Non-specialty MRI procedures shall not be performed on a Dedicated fixed or mobile Extremity MRI Unit and a CON granted for this use should so state on its face.

8 hours per day, 5 days per week = 40 hours per week. 40 hours per week x 50 weeks = 2,000 hours annually.

Average time per scan including turn-around = .75 hours. 2,000 hours / .75 hours = 2,667 scans per year maximum capacity.

Year 3 projected scans = 1,960. $1,960 / 2,667 = 73.5\%$ utilization.

7. **Patient Safety and Quality of Care.** The applicant shall provide evidence that any proposed MRI Unit is safe and effective for its proposed use.

a. The United States Food and Drug Administration (FDA) must certify the proposed MRI Unit for clinical use.

The MRI unit has been certified for clinical use by the FDA.

b. The applicant should demonstrate that the proposed MRI Procedures will be offered in a physical environment that conforms to applicable federal standards, manufacturer's specifications, and licensing agencies' requirements.

Please see the letter from the project architect, attached as Attachment Section B, Need, 1, (1).

c. The applicant should demonstrate how emergencies within the MRI Unit facility will be managed in conformity with accepted medical practice.

A copy of the MRI emergency protocol is attached as Attachment Section B, Need, 1, (2).

d. The applicant should establish protocols that assure that all MRI Procedures performed are medically necessary and will not unnecessarily duplicate other services.

The ACR does not require or recommend a formal policy or procedure statement as to medical necessity, and none is maintained. Medical necessity is assured as follows: The attending physician must order the MRI, deeming it medically necessary. That order is provided to the precertification department. This is forwarded to the third party payer for approval. If the payer determines the MRI scan is medically necessary, a pre-authorization number is provided to the Watauga scheduler, who works with the patient to schedule the procedure.

e. An applicant proposing to acquire any MRI Unit or institute any MRI service, including Dedicated Breast and Extremity MRI Units, shall demonstrate that it meets or is prepared to meet the staffing recommendations and requirements set forth by the American College of Radiology, including staff education and training programs.

The applicant intends to be accredited by the American College of Radiology, and will meet all standards thereof, including staffing.

f. All applicants shall commit to obtain accreditation from the Joint Commission, the American College of Radiology, or a comparable accreditation authority for MRI within two years following operation of the proposed MRI Unit.

The MRI service at the Watauga office in Johnson City is ACR accredited, and the proposed Kingsport service will likewise be so accredited.

g. All applicants should seek and document emergency transfer agreements with local area hospitals, as appropriate. An applicant's arrangements with its physician medical director must specify that said physician be an active member of the subject transfer agreement hospital medical staff.

MRI scans are very low risk procedures, and transfer agreements with hospitals are not required or recommended by the ACR. The supervising physicians of Watauga are on the medical staff of the closest hospital, Holston Valley Medical Center and can admit any patient if the need arises.

8. The applicant should provide assurances that it will submit data in a timely fashion as requested by the HSDA to maintain the HSDA Equipment Registry.

The applicant will do so.

9. In light of Rule 0720-11.01, which lists the factors concerning need on which an application may be evaluated, and Principle No. 2 in the State Health Plan, "Every citizen should have reasonable access to health care," the HSDA may decide to give special consideration to an applicant:

a. Who is offering the service in a medically underserved area as designated by the United States Health Resources and Services Administration;

Sullivan County is not a designated MUA. However, all other counties in the PSA and SSA are

fully or partially designated as MUAs:

County	MUA
Sullivan, TN	No
Hawkins, TN	Yes
Washington, TN	Partial
Greene, TN	Partial
Carter, TN	Yes
Lee, VA	Yes
Scott, VA	Yes

Source: <https://datawarehouse.hrsa.gov/tools/analyzers/MuaSearchResults.aspx>

b. Who is a "safety net hospital" or a "children's hospital" as defined by the Bureau of TennCare Essential Access Hospital payment program; or

N/A.

c. Who provides a written commitment of intention to contract with at least one TennCare MCO and, if providing adult services, to participate in the Medicare program; or

Watauga is already contracted with TennCare MCOs, and participates in the Medicare program.

d. Who is proposing to use the MRI unit for patients that typically require longer preparation and scanning times (e.g., pediatric, special needs, sedated, and contrast agent use patients). The applicant shall provide in its application information supporting the additional time required per scan and the impact on the need standard.

N/A.

[END OF RESPONSES TO SHP STANDARDS AND CRITERIA]

2. **Describe the relationship of this project to the applicant facility's long-range development plans, if any, and how it relates to related previously approved projects of the applicant.**

Watauga has no other long term development plans which would require CON approval. The proposed MRI service at the Kingsport office is a logical compliment to and extension of the MRI service at the Johnson City office.

3. **Identify the proposed service area and justify the reasonableness of that proposed area. Submit a county level map for the Tennessee portion of the service area using the map on the following page, clearly marked to reflect the service area as it relates to meeting the requirements for CON criteria and standards that may apply to the project. Please include a discussion of the inclusion of counties in the border states, if applicable. Attachment Section B - Need-3.**

The primary service area (PSA) consists of Sullivan, Hawkins, Washington, Greene, and Carter Counties in Tennessee. The secondary service area (SSA) consists of Lee and Scott Counties

in Virginia. The PSA and SSA accounted for 79.8% of the patient encounters at the Kingsport office in 2013-2015.

A county level map of the Tennessee counties comprising the PSA is attached as Attachment Section B, Need, 3.

Please complete the following tables, if applicable:

Primary Service Area Counties	Historical Utilization-County Residents*	% of Total Encounters
Sullivan	4,737	37.8%
Hawkins	1,850	14.8%
Washington	1,402	11.2%
Greene	302	2.4%
Carter	238	1.9%
PSA Sub-Total	8,529	68.1%
Secondary Service Area Counties		
Lee, VA	789	6.3%
Scott, VA	671	5.4%
SSA Sub-Total	1,460	11.7%
PSA and SSA Sub-Total	9,989	79.8%
Other Counties		
Other TN	321	2.6%
Other Non-TN	2,211	17.7%
Total	12,521	100%

*2013-2015, Kingsport office only

Year 1 scans = 831

Primary Service Area Counties	Projected Utilization-County Residents	% of Total Scans
Sullivan	314	37.8%
Hawkins	123	14.8%
Washington	93	11.2%
Greene	20	2.4%
Carter	16	1.9%
PSA Sub-Total	566	68.1%
Secondary Service Area Counties		
Lee, VA	52	6.3%
Scott, VA	45	5.4%
SSA Sub-Total	97	11.7%
Other Counties		
Other TN	22	2.6%
Other Non-TN	147	17.7%
Total	831	100%

4. A. 1) Describe the demographics of the population to be served by the proposal.

There are no particular demographic characteristics of the PSA that would reasonably be considered special needs either increasing or decreasing the need for MRI services. The

PSA does have a lower medical household income and a higher percentage of the population living below poverty level than the state as a whole. However, it has a lower percentage of TennCare enrollees than the state as a whole. Watauga participates in TennCare, and low income individuals will be served.

- 2) Using current and projected population data from the Department of Health, the most recent enrollee data from the Bureau of TennCare, and demographic information from the US Census Bureau, complete the following table and include data for each county in your proposed service area.

A table reflecting population and demographics data for the PSA is attached as Attachment Section B, Need, 4A.

Projected Population Data: <http://www.tn.gov/health/article/statistics-population>

TennCare Enrollment Data: <http://www.tn.gov/tenncare/topic/enrollment-data>

Census Bureau Fact Finder: <http://factfinder.census.gov/faces/nav/jsf/pages/index.xhtml>

** Target Population is population that project will primarily serve. For example, nursing home, home health agency, hospice agency projects typically primarily serve the Age 65+ population; projects for child and adolescent psychiatric services will serve the Population Ages 0-19. Projected Year is defined in select service-specific criteria and standards. If Projected Year is not defined, default should be four years from current year, e.g., if Current Year is 2016, then default Projected Year is 2020.*

- B. Describe the special needs of the service area population, including health disparities, the accessibility to consumers, particularly the elderly, women, racial and ethnic minorities, and low-income groups. Document how the business plans of the facility will take into consideration the special needs of the service area population.

There are no particular demographic characteristics of the PSA that would reasonably be considered special needs either increasing or decreasing the need for MRI services. The PSA does have a lower median household income and a higher percentage of the population living below poverty level than the state as a whole. However, it has a lower percentage of TennCare enrollees than the state as a whole. Watauga participates in TennCare, and low income individuals will be served.

5. Describe the existing and approved but unimplemented services of similar healthcare providers in the service area. Include utilization and/or occupancy trends for each of the most recent three years of data available for this type of project. List each provider and its utilization and/or occupancy individually. Inpatient bed projects must include the following data: Admissions or discharges, patient days, average length of stay, and occupancy. Other projects should use the most appropriate measures, e.g., cases, procedures, visits, admissions, etc. This doesn't apply to projects that are solely relocating a service.

In 2015 there were 18 MRI providers in the PSA, operating a total of 21.6 FTE MRI units. The average number of scans per unit of the reporting units was 2,837. This is just slightly below the utilization threshold of 2,880 scans per unit for non-specialty units. In 2014, the number of scans per unit was 2,286. This reflects a growth of 24% in utilization 2014-2015.

Utilization data for all MRI providers in the PSA is attached as Attachment Section B, Need, 5.

6. Provide applicable utilization and/or occupancy statistics for your institution for each of the past three years and the projected annual utilization for each of the two years following completion of the project. Additionally, provide the details regarding the methodology used to project utilization. The methodology must include detailed calculations or documentation from referral sources, and identification of all assumptions.

Historical (Johnson City Office):

2013: 2,337

2014: 2,221

2015: 2,465

Projected (Kingsport Office):

Year 1: 836

Year 2: 1,782

Based on past experience of the ratio between office visits and the number of MRIs ordered, it was determined that 5.4% was a reasonable average encounters-to-MRI ratio. Applying that factor to the number of patient encounters by the Kingsport surgeons in the Kingsport office, the number of projected MRI scans in Year 1 was calculated as follows:

Physician	Kingsport Visits	MRI Factor	Projected Scans
E. Parks	7,012	5.4%	379
T. Jenkins	1,380	5.4%	75
K. Lord	2,735	5.4%	148
K. McRae	468	5.4%	25
R. Duncan	723	5.4%	39
J. Wells	3,156	5.4%	170
Total	15,474	5.4%	836

The total projected number of scans in Year 2 is 1,782. Although this represents a significant increase in the number of scans over Year 1, it takes into account the addition of 3 new surgeons who will join Watauga. One new surgeon is joining the group in August of 2017, and two more are joining in the summer of 2018. The addition of these surgeons represents a growth of 50% of the surgeons in the Kingsport office who are expected to order significant

numbers of MRI scans. In light of the addition of 3 surgeons, the strong historical growth in utilization service area, and natural ramp-up time for the new service this projected number of scans in Year 2 is reasonable.

ECONOMIC FEASIBILITY

1. Provide the cost of the project by completing the Project Costs Chart on the following page. Justify the cost of the project.

A Project Costs Chart is attached following this page.

- A. All projects should have a project cost of at least \$15,000 (the minimum CON Filing Fee). (See Application Instructions for Filing Fee)
- B. The cost of any lease (building, land, and/or equipment) should be based on fair market value or the total amount of the lease payments over the initial term of the lease, whichever is greater. Note: This applies to all equipment leases including by procedure or "per click" arrangements. The methodology used to determine the total lease cost for a "per click" arrangement must include, at a minimum, the projected procedures, the "per click" rate and the term of the lease.

The Kingston office of Watauga is in a leased building. However, since the proposed MRI is going into space that is already being leased and paid for by Watauga, it is not considered a cost of this project.

- C. The cost for fixed and moveable equipment includes, but is not necessarily limited to, maintenance agreements covering the expected useful life of the equipment; federal, state, and local taxes and other government assessments; and installation charges, excluding capital expenditures for physical plant renovation or in-wall shielding, which should be included under construction costs or incorporated in a facility lease.

The MRI unit will be purchased. All required documentation is included in this application in response to the appropriate question(s).

- D. Complete the Square Footage Chart on page 8 and provide the documentation. Please note the Total Construction Cost reported on line 5 of the Project Cost Chart should equal the Total Construction Cost reported on the Square Footage Chart.

That Chart is attached at the appropriate place in the application.

- E. For projects that include new construction, modification, and/or renovation—documentation must be provided from a licensed architect or construction professional that support the estimated construction costs. Provide a letter that includes the following:

- 1) A general description of the project;
- 2) An estimate of the cost to construct the project;
- 3) A description of the status of the site's suitability for the proposed project; and
- 4) Attesting the physical environment will conform to applicable federal standards, manufacturer's specifications and licensing agencies' requirements including the AIA Guidelines for Design and Construction of Hospital and Health Care Facilities in current use by the licensing authority.

A letter from the project architect is attached as Attachment Section B, Need, 1, (1).

PROJECT COST CHART

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A.	Construction and equipment acquired by purchase:	
	1. Architectural and Engineering Fees	\$ 8,000.00
	2. Legal, Administrative, Consultant Fees	\$ 45,000.00
	3. Acquisition of Site	\$ -
	4. Preparation of Site	
	5. Total Construction Costs	\$ 50,000.00
	6. Contingency Fund	\$ 5,000.00
	7. Fixed Equipment (Not included in Construction Contract)	\$ 550,000.00
	8. Moveable Equipment (List all equipment over \$50,000.00)	
	9. Other (Specify) <u>4 year service agreement</u>	\$ 140,000.00
B.	Acquisition by gift donation, or lease:	
	1. Facility (Inclusive of building and land)	
	2. Building Only	
	3. Land Only	
	4. Equipment (Specify) _____	
	5. Other (Specify) _____	
C.	Financing Costs and Fees:	
	1. Interim Financing <u>Interest and UCC Filing Fee</u>	\$ 103,339.00
	2. Underwriting Costs	
	3. Reserve for One Year's Debt Service	
	4. Other (Specify) _____	
D.	Estimated Project Cost (A+B+C)	\$ 901,339.00
E.	CON Filing Fee	\$ 15,000.00
F.	Total Estimated Project Cost (D + E)	\$ 916,339.00
	TOTAL	\$ 916,339.00

2. Identify the funding sources for this project.

Check the applicable item(s) below and briefly summarize how the project will be financed. *(Documentation for the type of funding MUST be inserted at the end of the application, in the correct alpha/numeric order and identified as Attachment Section B-Economic Feasibility-2.)*

- ☒ A. Commercial loan – Letter from lending institution or guarantor stating favorable initial contact, proposed loan amount, expected interest rates, anticipated term of the loan, and any restrictions or conditions;

A funding letter is attached as Attachment Section B, Economic Feasibility, 2.

- ☐ B. Tax-exempt bonds – Copy of preliminary resolution or a letter from the issuing authority stating favorable initial contact and a conditional agreement from an underwriter or investment banker to proceed with the issuance;
- ☐ C. General obligation bonds – Copy of resolution from issuing authority or minutes from the appropriate meeting;
- ☐ D. Grants – Notification of intent form for grant application or notice of grant award;
- ☐ E. Cash Reserves – Appropriate documentation from Chief Financial Officer of the organization providing the funding for the project and audited financial statements of the organization; and/or
- ☐ F. Other – Identify and document funding from all other sources.

3. Complete Historical Data Charts on the following two pages—*Do not modify the Charts provided or submit Chart substitutions!*

Historical Data Chart represents revenue and expense information for the last *three (3)* years for which complete data is available. Provide a Chart for the total facility and Chart just for the services being presented in the proposed project, if applicable. Only complete one chart if it suffices.

Note that “Management Fees to Affiliates” should include management fees paid by agreement to the parent company, another subsidiary of the parent company, or a third party with common ownership as the applicant entity. “Management Fees to Non-Affiliates” should include any management fees paid by agreement to third party entities not having common ownership with the applicant.

Historical Data Charts for the overall practice and for the MRI service at the Johnson City location are attached following this page.

HISTORICAL DATA CHART

☒ Total Facility
☐ Project Only

Give information for the last three (3) years for which complete data are available for the facility or agency. The fiscal year begins in January (Month)

	Year: 2013	Year: 2014	Year: 2015
A. Utilization/Occupancy Data (Specify unit of measure, e.g., 1,000 patient days, 500 visits) Pt. Visits	69,095 Visits	72,882 visits	78,201 visits
B. Revenue from Services to Patients			
1. Inpatient Services			
2. Outpatient Services	\$37,718,077.00	\$36,940,273.00	\$40,343,062
3. Emergency Services			
4. Other Operating Revenue			
Specify: _____			
Gross Operating Revenue	\$37,718,077.00	\$36,940,273.00	\$40,343,062.00
C. Deductions from Operating Revenue			
1. Contract Deductions	\$24,120,041.00	\$23,342,243.00	\$25,920,829.00
2. Provision for Charity Care			
3. Provision for Bad Debt			
Total Deductions	\$24,120,041.00	\$23,342,243.00	\$25,920,829.00
NET OPERATING REVENUE	\$13,598,036.00	\$13,598,030.00	\$14,422,233.00
D. Operating Expenses			
1. Salaries and Wages			
a. Direct Patient Care	\$4,360,406.00	\$4,539,351.00	\$4,912,353.00
b. Non-Patient Care			
2. Physicians' Salaries and Wages			
3. Supplies - Medical	\$743,241.00	\$ 904,256.00	\$ 979,952.00
4. Rent			
a. Paid to Affiliates	\$529,404.00	\$529,404.00	\$529,404.00
b. Paid to Non-Affiliates	\$116,189.88	\$116,189.88	\$116,189.88
5. Management Fees:			
a. Fees to Affiliates			
b. Fees to Non-Affiliates*	\$150,000.00	\$100,000.00	\$100,000.00
6. Other Operating Expenses	\$2,543,628.00	\$2,548,194.00	\$2,405,245.00
Total Operating Expenses	\$3,286,869.00	\$3,452,450.00	\$3,385,197.00
E. Earnings Before Interest, Taxes, and Depreciation	\$10,311,167.00	\$10,145,580.00	\$11,037,036.00
F. Non-Operating Expenses			
1. Taxes	\$47,486.00	\$38,354.00	\$ 44,805.00
2. Depreciation	\$106,150.00	\$222,101.00	\$ 25,347.00
3. Interest	0	0	0
4. Other Non-Operating Expenses			
Total Non-Operating Expenses	\$153,636.00	\$260,455.00	\$70,152.00
NET INCOME (LOSS)	\$10,157,531.00	\$9,885,125.00	\$10,966,884.00
G. Other Deductions			
1. Annual Principal Debt Repayment			
2. Annual Capital Expenditure			
Other Total Deductions	\$0.00	\$0.00	\$0.00
NET BALANCE	\$10,157,531.00	\$9,885,125.00	\$10,966,884.00
DEPRECIATION	\$0.00	\$0.00	\$0.00
FREE CASH FLOW (Net Balance + Depreciation)	\$10,157,531.00	\$9,885,125.00	\$10,966,884.00

HISTORICAL DATA CHART -- OTHER EXPENSES

 X Total Facility
 Project Only

OTHER EXPENSE CATEGORY	Year 2013	Year 2014	Year 2015
Accounting Fees	\$ 18,995	\$ 20,105	\$ 16,962
Advertising Expense	\$ 13	\$ -	\$ -
Alarm Service	\$ 720	\$ -	\$ 720
Answering Service	\$ 1,315	\$ 1,623	\$ 1,712
Archive Fees	\$ 59,258	\$ 74,904	\$ 79,112
Bank Charges	\$ 49,648	\$ 58,846	\$ 67,763
Billing Fees	\$ 435,381	\$ 538,479	\$ 565,828
Christmas Expense	\$ 6,538	\$ 1,368	\$ 5,214
Collection Agency Commissions	\$ 334	\$ 13,044	\$ 988
Conference and Conventions	\$ 675	\$ 849	\$ 2,065
Consulting and Professional Fees	\$ 193,198	\$ 155,753	\$ 161,366
Continuing Medical Education	\$ 30,302	\$ 17,210	\$ 34,908
Contracted Services	\$ 5,662	\$ 489	\$ 1,055
Credentialing Expense	\$ 2,815	\$ 4,650	\$ 2,477
Dues and Subscriptions	\$ 25,636	\$ 32,028	\$ 24,058
EMR Expense	\$ 22,262	\$ 18,912	\$ 24,168
Employee Relations	\$ 100	\$ -	\$ -
Flowers	\$ 6,022	\$ 11,977	\$ 3,089
Insurance Expense - General	\$ 42,427	\$ 39,294	\$ 54,106
Janitorial Expense	\$ 66,707	\$ 61,057	\$ 54,556
Laundry Expense	\$ 6,691	\$ 6,444	\$ 6,100
Lease - Other	\$ 6,277	\$ 4,737	\$ 5,892
Lease - Equipment	\$ 39,760	\$ 37,420	\$ 39,441
Legal Fees	\$ 1,525	\$ 15,233	\$ 8,580
License Fees	\$ 13,429	\$ 10,993	\$ 7,893
Malpractice Expense	\$ 258,020	\$ 137,216	\$ 155,118
Marketing/Promotions	\$ 73,034	\$ 105,282	\$ 49,664
Meals and Entertainment	\$ 19,620	\$ 23,667	\$ 23,016
Mileage Expense	\$ 29,982	\$ 30,950	\$ 36,926
Networking	\$ 11,412	\$ -	\$ 11,519
Patient Communication	\$ 5,821	\$ -	\$ -
Payroll Processing	\$ 9,584	\$ 10,000	\$ 11,079
Postage Expense	\$ 9,460	\$ 7,511	\$ 6,183
Printing Expense	\$ 11,624	\$ 13,791	\$ 9,034
Interpretation Fees	\$ 199,570	\$ 155,750	\$ 165,930
Recruitment Expense	\$ 3,166	\$ 4,664	\$ 3,217
Repairs and Maintenance - contracts	\$ 185,802	\$ 202,183	\$ 186,369
Repairs and Maintenance - Building	\$ 11,778	\$ 1,805	\$ 4,190
Repairs and Maintenance- Equipment	\$ 51,501	\$ 48,651	\$ 43,195
Software Expense and License	\$ 24,935	\$ 29,352	\$ 15,544
Supplies - Computer	\$ 429	\$ -	\$ -
Supplies - Non capital Equip	\$ 189,834	\$ 257,111	\$ 169,301
Supplies - Kitchen	\$ 1,911	\$ 1,708	\$ 2,609
Supplies - Office	\$ 14,400	\$ 20,516	\$ 14,045
Transcription Expense	\$ 104,270	\$ 70,733	\$ 68,444
Travel Expense	\$ 71,696	\$ 72,379	\$ 59,478
Waste Disposal	\$ 12,416	\$ 15,655	\$ 11,934
Contract Labor	\$ 32,895	\$ 19,341	\$ 7,008
Utilities	\$ 119,995	\$ 136,962	\$ 119,456
Telephone	\$ 54,545	\$ 57,510	\$ 63,686
Parking	\$ 238	\$ 42	\$ 247
TOTAL OTHER EXPENSES	\$ 2,543,628	\$ 2,548,194	\$ 2,405,245.00

*This management agreement ended December 31, 2015.

HISTORICAL DATA CHART

☐ Total Facility
☒ Project Only (MRI Service)

Give information for the last three (3) years for which complete data are available for the facility or agency. The fiscal year begins in January(Month)

	Year: 2013	Year: 2014	Year: 2015
A. Utilization/Occupancy Data (Specify unit of measure, e.g., 1,000 patient days, 500 visits)	2337 Scans	2221 scans	2465 scans
B. Revenue from Services to Patients	\$3,391,643.00	\$3,213,247.00	\$3,565,010.00
1. Inpatient Services			
2. Outpatient Services	\$3,391,643.00	\$3,213,247.00	\$3,565,010.00
3. Emergency Services			
4. Other Operating Revenue			
Specify: _____			
Gross Operating Revenue	\$3,391,643.00	\$3,213,247.00	\$3,565,010.00
C. Deductions from Operating Revenue			
1. Contract Deductions (Items 1-3 not segregated on books)	\$2,142,561.00	\$2,093,359.00	\$2,554,806.00
2. Provision for Charity Care			
3. Provision for Bad Debt			
Total Deductions	\$2,142,561.00	\$2,093,359.00	\$2,554,806.00
NET OPERATING REVENUE	\$1,249,082.00	\$1,119,888.00	\$1,010,204.00
D. Operating Expenses			
1. Salaries and Wages			
a. Direct Patient Care (All are direct patient care)	\$152,298.00	\$156,966.00	\$148,834.00
b. Non-Patient Care			
2. Physicians' Salaries and Wages			
3. Supplies	\$2,519.00	\$13,878.00	\$2,009.00
4. Rent			
a. Paid to Affiliates	\$24,147.00	\$24,147.00	\$24,147.00
b. Paid to Non-Affiliates			
5. Management Fees:			
a. Fees to Affiliates			
b. Fees to Non-Affiliates	\$18,482.00	\$12,638.00	\$8,610.00
6. Other Operating Expenses	\$518,485.00	\$328,820.00	\$360,439.00
Total Operating Expenses	\$521,004.00	\$342,698.00	\$362,448.00
E. Earnings Before Interest, Taxes, and Depreciation	\$728,078.00	\$777,190.00	\$647,756.00
F. Non-Operating Expenses			
1. Taxes			
2. Depreciation			
3. Interest			
4. Other Non-Operating Expenses			
Total Non-Operating Expenses	\$0.00	\$0.00	\$0.00
NET INCOME (LOSS)	\$728,078.00	\$777,190.00	\$647,756.00
G. Other Deductions			
1. Annual Principal Debt Repayment			
2. Annual Capital Expenditure			
Other Total Deductions	\$0.00	\$0.00	\$0.00
NET BALANCE	\$728,078.00	\$777,190.00	\$647,756.00
DEPRECIATION	\$0.00	\$0.00	\$0.00
FREE CASH FLOW (Net Balance + Depreciation)	\$728,078.00	\$777,190.00	\$647,756.00

HISTORICAL DATA CHART -- OTHER EXPENSES

☐ Total Facility
☒ Project Only (MRI Service)

OTHER EXPENSE CATEGORY	Year 2013	Year 2014	Year 2015
(In 2014 Watauga stopped cost accounting many of the general practice expenses)			
Accounting Fees	\$ 403	\$ -	\$ -
Advertising Expense	\$ -	\$ -	\$ -
Alarm Service	\$ 70	\$ -	\$ -
Answering Service	\$ 124	\$ -	\$ -
Archive Fees	\$ -	\$ -	\$ -
Bank Charges	\$ 5,461	\$ -	\$ -
Billing Fees	\$ 47,871	\$ -	\$ -
Christmas Expense	\$ 417	\$ -	\$ -
Collection Agency Commissions	\$ -	\$ -	\$ -
Conference and Conventions	\$ 74	\$ -	\$ -
Consulting and Professional Fees	\$ 18,093	\$ -	\$ -
Continuing Medical Education	\$ -	\$ -	\$ -
Contracted Services	\$ 1,625	\$ -	\$ -
Credentialing Expense	\$ -	\$ -	\$ 10
Dues and Subscriptions	\$ 108	\$ 55	\$ 55
EMR Expense	\$ 2,449	\$ -	\$ -
Employee Relations	\$ -	\$ -	\$ -
Flowers	\$ 49	\$ -	\$ -
Insurance Expense - General	\$ -	\$ -	\$ -
Janitorial Expense	\$ 6,241	\$ 29	\$ 169
Laundry Expense	\$ 4,572	\$ 4,215	\$ 4,093
Lease - Other	\$ 296	\$ -	\$ -
Lease - Equipment	\$ 3,157	\$ -	\$ -
Legal Fees	\$ 55	\$ 360	\$ -
License Fees	\$ 3,999	\$ -	\$ 60
Malpractice Expense	\$ -	\$ -	\$ -
Marketing/Promotions	\$ 3,989	\$ -	\$ -
Meals and Entertainment	\$ 961	\$ -	\$ 84
Mileage Expense	\$ 34	\$ -	\$ 84
Networking	\$ -	\$ -	\$ -
Patient Communication	\$ 640	\$ -	\$ -
Payroll Processing	\$ -	\$ -	\$ -
Postage Expense	\$ 816	\$ 34	\$ 11
Printing Expense	\$ 346	\$ 11	\$ 179
Interpretation Fees	\$ 199,570	\$ 155,055	\$ 165,930
Recruitment Expense	\$ 13	\$ -	\$ -
Repairs and Maintenance - contracts	\$ 156,660	\$ 143,198	\$ 145,593
Repairs and Maintenance - Building	\$ 1,389	\$ -	\$ 38
Repairs and Maintenance- Equipment	\$ 9,713	\$ 719	\$ 639
Software Expense and License	\$ 1,669	\$ -	\$ -
Supplies - Computer	\$ 47	\$ -	\$ -
Supplies - Non capital Equip	\$ 8,565	\$ -	\$ -
Supplies - Kitchen	\$ 236	\$ -	\$ -
Supplies - Office	\$ 975	\$ -	\$ -
Transcription Expense	\$ -	\$ -	\$ -
Travel Expense	\$ 358	\$ -	\$ -
Waste Disposal	\$ 663	\$ -	\$ -
Contract Labor	\$ 1,805	\$ -	\$ -
Utilities	\$ 33,312	\$ 25,144	\$ 43,494
Telephone	\$ 1,657	\$ -	\$ -
Parking	\$ 3	\$ -	\$ -
TOTAL OTHER EXPENSES	\$ 518,485.00	\$ 328,820.00	\$ 360,439.00

4. Complete Projected Data Charts on the following two pages – **Do not modify the Charts provided or submit Chart substitutions!**

The Projected Data Chart requests information for the two years following the completion of the proposed services that apply to the project. Please complete two Projected Data Charts. One Projected Data Chart should reflect revenue and expense projections for the *Proposal Only* (i.e., if the application is for additional beds, include anticipated revenue from the proposed beds only, not from all beds in the facility). The second Chart should reflect information for the total facility. Only complete one chart if it suffices.

Note that "Management Fees to Affiliates" should include management fees paid by agreement to the parent company, another subsidiary of the parent company, or a third party with common ownership as the applicant entity. "Management Fees to Non-Affiliates" should include any management fees paid by agreement to third party entities not having common ownership with the applicant.

A Projected Data Chart is attached following this page.

PROJECTED DATA CHART

☐ Total Facility
☒ Project Only

Give information for the last two (2) years for which complete data are available for the facility or agency. The fiscal year begins in January (Month)

	Year:	Year:
A. Utilization/Occupancy Data (Specify unit of measure, e.g., 1,000 patient days, 500 visits) MRI Scans	2017 836	2018 1782
B. Revenue from Services to Patients		
1. Inpatient Services		
2. Outpatient Services	\$1,200,830	\$2,559,665
3. Emergency Services		
4. Other Operating Revenue		
Specify: _____		
Gross Operating Revenue	\$1,200,830	\$2,559,665
C. Deductions from Operating Revenue		
1. Contract Deductions	\$807,070	\$1,730,753
2. Provision for Charity Care	\$20,358	\$43,627
3. Provision for Bad Debt		
Total Deductions	\$786,712	\$1,687,126
NET OPERATING REVENUE	\$414,118	\$872,538
D. Operating Expenses		
1. Salaries and Wages		
a. Direct Patient Care	\$67,600	\$67,600
b. Non-Patient Care	\$40,560	\$40,560
2. Physicians' Salaries and Wages	\$0	\$0
3. Supplies	\$7,200	\$8,200
4. Rent		
a. Paid to Affiliates	\$7,500	\$7,500
b. Paid to Non-Affiliates		
5. Management Fees:		
a. Fees to Affiliates		
b. Fees to Non-Affiliates		
6. Other Operating Expenses	\$76,050	\$187,130
Total Operating Expenses	\$198,910	\$310,990
E. Earnings Before Interest, Taxes, and Depreciation	\$215,208	\$561,548
F. Non-Operating Expenses		
1. Taxes		
2. Depreciation	\$55,000	\$55,000
3. Interest	\$12,672	\$12,672
4. Other Non-Operating Expenses		
Total Non-Operating Expenses	\$67,672	\$67,672
NET INCOME (LOSS)	\$147,536	\$493,876
G. Other Deductions		
1. Estimated Annual Principal Debt Repayment		
2. Annual Capital Expenditure		
Other Total Deductions	\$0	\$0
NET BALANCE	\$147,536	\$493,876
DEPRECIATION	\$0	\$0
FREE CASH FLOW (Net Balance + Depreciation)	\$147,536	\$493,876

PROJECTED DATA CHART -- OTHER EXPENSES

☐ Total Facility
☒ Project Only

<u>OTHER EXPENSE CATEGORY</u>	Yes	\$2,017	\$2,018
1. Professional Services Contracts			
2. Contract Labor			
3. Imagng Interpretation Fees (Itemize all others below)		\$66,480	\$142,560
Maintenance		\$0	\$35,000
Certification/Licensure		\$3,000	\$3,000
Estimate Electrial Increase		\$6,570	\$6,570
TOTAL OTHER EXPENSES		\$76,050	\$187,130

5. A. Please identify the project's average gross charge, average deduction from operating revenue, and average net charge using information from the Projected Data Chart for Year 1 and Year 2 of the proposed project. Please complete the following table.

	Previous Year	Current Year	Year One	Year Two	% Change (Current Year to Year 2)
Gross Charge (Gross Operating Revenue/Utilization Data)	N/A	N/A	\$1,436.40	\$1,436.40	0
Deduction from Revenue (Total Deductions/Utilization Data)	N/A	N/A	\$946.72	\$946.76	0
Average Net Charge (Net Operating Revenue/Utilization Data)	N/A	N/A	\$489.68	\$489.64	0

- B. Provide the proposed charges for the project and discuss any adjustment to current charges that will result from the implementation of the proposal. Additionally, describe the anticipated revenue from the project and the impact on existing patient charges.

The average gross and net charges for the first two years are reflected above. The gross charges and Medicare allowable reimbursements are reflected below. The patient charges at the Johnson City location will not be affected by this proposal.

MRI			
CPT	Charge Amount	Medicare allowable	
72149	\$ 1,701	\$	295.09
72195	\$ 1,523	\$	342.88
73720	\$ 2,191	\$	460.29
73721	\$ 1,471	\$	217.40
72141	\$ 1,383	\$	206.63
72157	\$ 2,023	\$	350.06
73718	\$ 1,500	\$	333.15
72147	\$ 1,561	\$	295.55
72148	\$ 1,384	\$	205.66
72146	\$ 1,403	\$	206.63
72158	\$ 2,115	\$	348.78
73218	\$ 1,530	\$	333.15
73221	\$ 1,440	\$	217.08

- C. Compare the proposed charges to those of similar facilities in the service area/adjoining service areas, or to proposed charges of projects recently approved by the Health Services and Development Agency. If applicable, compare the proposed charges of the project to the current Medicare allowable fee schedule by common procedure terminology (CPT) code(s).

The average gross charges per scan for the existing providers in 2015 are reflected in Attachment Section B, Need, 5. The proposed gross charge of \$1,436.40 is the lowest of these.

6. A. Discuss how projected utilization rates will be sufficient to support the financial performance. Indicate when the project's financial breakeven is expected and demonstrate the availability of sufficient cash flow until financial viability is achieved. Provide copies of the balance sheet and income statement from the most recent reporting period of the institution and the most recent audited financial statements with accompanying notes, if applicable. For all projects, provide financial information for the corporation, partnership, or principal parties that will be a source of funding for the project. Copies must be inserted at the end of the application, in the correct alpha-numeric order and labeled as Attachment Section B-Economic Feasibility-6A. NOTE: Publicly held entities only need to reference their SEC filings.

As reflected on the Projected Data Chart, this proposal is profitable from the outset. Copies of the unaudited financial statements for Watauga Orthopaedics are attached as Attachment Section B, Economic Feasibility, 6A. There are no audited financial statements.

- B. Net Operating Margin Ratio – Demonstrates how much revenue is left over after all the variable or operating costs have been paid. The formula for this ratio is: (Earnings before interest, Taxes, and Depreciation/Net Operating Revenue).

Utilizing information from the Historical and Projected Data Charts please report the net operating margin ratio trends in the following table:

Year	2nd Year previous to Current Year	1st Year previous to Current Year	Current Year	Projected Year 1	Projected Year 2
Net Operating Margin Ratio	58%	69%	64%	60%	64%

Chart represents 2013, 2014 and 2015(current year) for the Johnson City MRI

Projected Y1 and Y2 reflect the MRI service, with the addition of the Kingsport unit.

- C. Capitalization Ratio (Long-term debt to capitalization) – Measures the proportion of debt financing in a business's permanent (Long-term) financing mix. This ratio best measures a business's true capital structure because it is not affected by short-term financing decisions. The formula for this ratio is: Long Term Debt/(Long Term Debt + Total Equity) x 100.

For the entity (applicant and/or parent company) that is funding the proposed project please provide the capitalization ratio using the most recent year available from the funding entity's audited balance sheet, if applicable. The Capitalization Ratios are not expected from outside the company lenders that provide funding.

N/A. This project is being funded by an outside lender.

7. Discuss the project's participation in state and federal revenue programs including a description of the extent to which Medicare, TennCare/Medicaid and medically indigent patients will be served by the project. Additionally, report the estimated gross operating revenue dollar amount and percentage of projected gross operating revenue anticipated by payor classification for the first year of the project by completing the table below.

Applicant's Projected Payor Mix, Year 1

Payor Source	Projected Gross Operating Revenue	As a % of total
Medicare/Medicare Managed Care	\$120,083	10%
TennCare/Medicaid	\$24,017	2%
Commercial/Other Managed Care	\$972,672	81%
Self-Pay	(Incl. in Other)	(Incl. in Other)
Charity Care	(Incl. in Other)	(Incl. in Other)
Workers Comp.	\$60,042	5%
Other (Specify) <u>Charity, bad debt, self pay</u>	\$24,017	2%
Total	\$1,200,830	100%

8. Provide the projected staffing for the project in Year 1 and compare to the current staffing for the most recent 12-month period, as appropriate. This can be reported using full-time equivalent (FTEs) positions for these positions. Additionally, please identify projected salary amounts by position classifications and compare the clinical staff salaries to prevailing wage patterns in the proposed service area as published by the Department of Labor & Workforce Development and/or other documented sources.

Position Classification	Existing FTEs 2016	Projected FTEs Year 1	Average Wage (Contractual Rate)	Area Wide/Statewide Average Wage*
Direct Patient Care Positions				
<i>Position MRI Tech</i>	0	1	25.00/hour	
Total Direct Patient Care Positions	0	1	\$52,000/year plus benefits = \$67,600	

Non-Patient Care Positions				
<i>Scheduler/Pre Certification</i>	0	1	15.00/hour	
Total Non-Patient Care Positions	0	1	\$31,200/year plus benefits = \$40,560	
Total Employees (A+B)	0	2	\$108,160	
Contractual Staff	0	0		
Total Staff (A+B+C)	0	2	\$108,160	

*The requested information could not be located on the Department of Labor and Workforce Development website.

9. Describe all alternatives to this project which were considered and discuss the advantages and disadvantages of each alternative including but not limited to:

A. Discuss the availability of less costly, more effective and/or more efficient alternative methods of providing the benefits intended by the proposal. If development of such alternatives is not practicable, justify why not, including reasons as to why they were rejected.

No such alternatives were identified. This is an economically efficient proposal. Existing space in the Watauga offices is available with only minor renovation and installation costs being required. The MRI unit is reasonably priced at approximately \$550,000

B. Document that consideration has been given to alternatives to new construction, e.g., modernization or sharing arrangements.

N/A. No new construction is involved in this project. Only minor renovation of approximately 303 square feet of existing space is required.

CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTH CARE

1. List all existing health care providers (i.e., hospitals, nursing homes, home care organizations, etc.), managed care organizations, alliances, and/or networks with which the applicant currently has or plans to have contractual and/or working relationships, that may directly or indirectly apply to the project, such as, transfer agreements, contractual agreements for health services.

No such arrangements are in place or necessary for the successful implementation of this project.

2. Describe the effects of competition and/or duplication of the proposal on the health care system, including the impact to consumers and existing providers in the service area. Discuss any instances of competition and/or duplication arising from your proposal including a description of the effect the proposal will have on the utilization rates of existing providers in the service area of the project.

A. Positive Effects

The proposed extremities MRI service at the Kingsport location of Watauga Orthopaedics will allow patients of Watauga to receive MRI scans closer to their homes and/or places of employment. This will result in significant conveniences for the patients of Watauga. The addition of the Kingsport MRI unit will streamline care because patients will have access to their surgeon and the MRI results same day. It will also help reduce out of pocket costs for patients because with same day access it can reduce the need for multiple visits.

There has been significant growth in MRI utilization in the service area over the past few years. MRI utilization increased 24% in the PSA 2014-2015. This additional MRI option will help absorb some of this growth.

B. Negative Effects

There should be little negative impact to existing providers. MRI providers in the PSA area averaged 2,837 scans per unit in 2015. This is just slightly below the utilization threshold of

2,880 scans per unit. Many of the projected scans at the Watauga Kingsport office will be re-directed from the Watauga Johnson City office, further decreasing the impact on any other providers.

- 3. A. Discuss the availability of and accessibility to human resources required by the proposal, including clinical leadership and adequate professional staff, as per the State of Tennessee licensing requirements and/or requirements of accrediting agencies, such as the Joint Commission and Commission on Accreditation of Rehabilitation Facilities.**

This proposal requires only 1 FTE MRI Technologist, which should be readily available in the local workforce. The MRI service at Watauga's Johnson City office is accredited by the ACR, and the proposed service at the Kingsport location will likewise be ACR accredited. Watauga will comply with all staffing recommendations of the ACR.

- B. Verify that the applicant has reviewed and understands all licensing and/or certification as required by the State of Tennessee and/or accrediting agencies such as the Joint Commission for medical/clinical staff. These include, without limitation, regulations concerning clinical leadership, physician supervision, quality assurance policies and programs, utilization review policies and programs, record keeping, clinical staffing requirements, and staff education.**

The MRI service at Watauga's Johnson City office is accredited by the ACR, and the proposed service at the Kingsport location will likewise be ACR accredited. Watauga will comply with all requirements and recommendations of the ACR.

- C. Discuss the applicant's participation in the training of students in the areas of medicine, nursing, social work, etc. (e.g., internships, residencies, etc.).**

Watauga trains physician assistant students, medical students and orthopaedic residents from these programs at DeBusk College of Osteopathic Medicine, Lincoln Memorial University, East Tennessee State University, Milligan College, and the Wellmont Orthopaedic Residency Program.

- 4. Identify the type of licensure and certification requirements applicable and verify the applicant has reviewed and understands them. Discuss any additional requirements, if applicable. Provide the name of the entity from which the applicant has received or will receive licensure, certification, and/or accreditation.**

Licensure: N/A.

Certification Type (e.g. Medicare SNF, Medicare LTAC, etc.): Watauga Orthopaedics is Medicare certified.

Accreditation (i.e., Joint Commission, CARF, etc.): American College of Radiology

- A. If an existing institution, describe the current standing with any licensing, certifying, or accrediting agency. Provide a copy of the current license of the facility and accreditation designation.**

Watauga is accredited by the ACR. A copy of the certificate is attached as Attachment Section B, Orderly Development, 4B.

- B. For existing providers, please provide a copy of the most recent statement of deficiencies/plan of correction and document that all deficiencies/findings have been corrected by providing a letter from the appropriate agency.**

N/A.

- C. Document and explain inspections within the last three survey cycles which have resulted in any of the following state, federal, or accrediting body actions: suspension of admissions, civil monetary penalties, notice of 23-day or 90-day termination proceedings from Medicare/Medicaid/TennCare, revocation/denial of accreditation, or other similar actions.**

None.

- 1) Discuss what measures the applicant has or will put in place to avoid similar findings in the future.**

N/A.

5. Respond to all of the following and for such occurrences, identify, explain and provide documentation:

A. Has any of the following:

- 1) Any person(s) or entity with more than 5% ownership (direct or indirect) in the applicant (to include any entity in the chain of ownership for applicant);**
- 2) Any entity in which any person(s) or entity with more than 5% ownership (direct or indirect) in the applicant (to include any entity in the chain of ownership for applicant) has an ownership interest of more than 5%; and/or**
- 3) Any physician or other provider of health care, or administrator employed by any entity in which any person(s) or entity with more than 5% ownership in the applicant (to include any entity in the chain of ownership for applicant) has an ownership interest of more than 5%.**

B. Been subjected to any of the following:

- 1) Final Order or Judgment in a state licensure action;**
No.
- 2) Criminal fines in cases involving a Federal or State health care offense;**
No.
- 3) Civil monetary penalties in cases involving a Federal or State health care offense;**
No.
- 4) Administrative monetary penalties in cases involving a Federal or State health care offense;**
No.
- 5) Agreement to pay civil or administrative monetary penalties to the federal government or any state in cases involving claims related to the provision of health care items and services; and/or**
No.
- 6) Suspension or termination of participation in Medicare or Medicaid/TennCare programs.**
No.
- 7) Is presently subject of/to an investigation, regulatory action, or party in any civil or criminal action of which you are aware.**
No.

8) Is presently subject to a corporate integrity agreement.

No.

6. Outstanding Projects:

None.

A. Complete the following chart by entering information for each applicable outstanding CON by applicant or share common ownership; and

<u>Outstanding Projects</u>					
<u>CON Number</u>	<u>Project Name</u>	<u>Date Approved</u>	<u>*Annual Progress Report(s)</u>		<u>Expiration Date</u>
			<u>Due Date</u>	<u>Date Filed</u>	

* Annual Progress Reports – HSDA Rules require that an Annual Progress Report (APR) be submitted each year. The APR is due annually until the Final Project Report (FPR) is submitted (FPR is due within 90 ninety days of the completion and/or implementation of the project). Brief progress status updates are requested as needed. The project remains outstanding until the FPR is received.

B. Provide a brief description of the current progress, and status of each applicable outstanding CON.

N/A.

7. **Equipment Registry – For the applicant and all entities in common ownership with the applicant.**

A. Do you own, lease, operate, and/or contract with a mobile vendor for a Computed Tomography scanner (CT), Linear Accelerator, Magnetic Resonance Imaging (MRI), and/or Positron Emission Tomographer (PET)?

Yes. (MRI)

B. If yes, have you submitted their registration to HSDA? If you have, what was the date of submission?

Yes; 9/1/2000

C. If yes, have you submitted your utilization to Health Services and Development Agency? If you have, what was the date of submission?

Yes; 3/29/2016

QUALITY MEASURES

Please verify that the applicant will report annually using forms prescribed by the Agency concerning continued need and appropriate quality measures as determined by the Agency pertaining to the certificate of need, if approved.

The applicant so verifies.

SECTION C: STATE HEALTH PLAN QUESTIONS

T.C.A. §68-11-1625 requires the Tennessee Department of Health's Division of Health Planning to develop and annually update the State Health Plan (found at <http://www.tn.gov/health/topic/health-planning>). The State Health Plan guides the State in the development of health care programs and policies and in the allocation of health care resources in the State, including the Certificate of Need program. The 5 Principles for Achieving Better Health are from the State Health Plan's framework and inform the Certificate of Need program and its standards and criteria.

Discuss how the proposed project will relate to the 5 Principles for Achieving Better Health found in the State Health Plan.

1. **The purpose of the State Health Plan is to improve the health of the people of Tennessee.**

This appears to be a policy statement to which no response is necessary.

2. **People in Tennessee should have access to health care and the conditions to achieve optimal health.**

This proposed MRI service will increase access to MRI services in the service area.

3. **Health resources in Tennessee, including health care, should be developed to address the health of people in Tennessee while encouraging economic efficiencies.**

This proposal will improve access to MRI services in an economically efficient manner.

4. **People in Tennessee should have confidence that the quality of health care is continually monitored and standards are adhered to by providers.**

The MRI service will be accredited by the American College of Radiology and will maintain compliance with all applicable quality of care standards.

5. **The state should support the development, recruitment, and retention of a sufficient and quality health workforce.**

This proposal requires only 1 FTE MRI Technologist, which should be readily available in the local workforce.

PROOF OF PUBLICATION

Attach the full page of the newspaper in which the notice of intent appeared with the mast and dateline intact or submit a publication affidavit from the newspaper that includes a copy of the publication as proof of the publication of the letter of intent.

The Notice of Intent was published in the Kingsport Times News. A Publishers Affidavit has been requested and will be submitted upon receipt.

NOTIFICATION REQUIREMENTS

(Applies only to Nonresidential Substitution-Based Treatment Centers for Opiate Addiction)

Note that T.C.A. §68-11-1607(c)(9)(A) states that "...Within ten (10) days of the filing of an application for a nonresidential substitution-based treatment center for opiate addiction with the agency, the applicant shall send a notice to the county mayor of the county in which the facility is proposed to be located, the state representative and senator representing the house district and senate district in which the facility is proposed to be located, and to the mayor of the municipality, if the facility is proposed to be located within the corporate boundaries of a municipality, by certified mail, return receipt requested, informing such officials that an application for a nonresidential substitution-based treatment center for opiate addiction has been filed with the agency by the applicant."

Failure to provide the notifications described above within the required statutory timeframe will result in the voiding of the CON application.

Please provide documentation of these notifications.

N/A.

DEVELOPMENT SCHEDULE

T.C.A. §68-11-1609(c) provides that a Certificate of Need is valid for a period not to exceed three (3) years (for hospital projects) or two (2) years (for all other projects) from the date of its issuance and after such time shall expire; provided, that the Agency may, in granting the Certificate of Need, allow longer periods of validity for Certificates of Need for good cause shown. Subsequent to granting the Certificate of Need, the Agency may extend a Certificate of Need for a period upon application and good cause shown, accompanied by a non-refundable reasonable filing fee, as prescribed by rule. A Certificate of Need which has been extended shall expire at the end of the extended time period. The decision whether to grant such an extension is within the sole discretion of the Agency, and is not subject to review, reconsideration, or appeal.

- 1. Complete the Project Completion Forecast Chart on the next page. If the project will be completed in multiple phases, please identify the anticipated completion date for each phase.**
- 2. If the response to the preceding question indicates that the applicant does not anticipate completing the project within the period of validity as defined in the preceding paragraph, please state below any request for an extended schedule and document the "good cause" for such an extension.**

N/A. An extended period of validity is not requested.

PROJECT COMPLETION FORECAST CHART

Assuming the Certificate of Need (CON) approval becomes the final HSDA action on the date listed in Item 1. below, indicate the number of days from the HSDA decision date to each phase of the completion forecast.

<u>Phase</u>	<u>Days Required</u>	<u>Anticipated Date [Month/Year]</u>
1. Initial HSDA decision date		April 2017
2. Architectural and engineering contract signed	N/A	
3. Construction documents approved by the Tennessee Department of Health	30	May 2017
4. Construction contract signed	N/A	
5. Building permit secured	N/A	
6. Site preparation completed	N/A	
7. Building construction commenced	N/A	
8. Construction 40% complete	N/A	
9. Construction 80% complete	N/A	
10. Construction 100% complete (approved for occupancy)	N/A	
11. *Issuance of License	120	N/A
12. *Issuance of Service	180	October 2017
13. Final Architectural Certification of Payment	180	October 2017
14. Final Project Report Form submitted (Form HR0055)	210	November 2017

*For projects that **DO NOT** involve construction or renovation, complete Items 11 & 12 only.

NOTE: If litigation occurs, the completion forecast will be adjusted at the time of the final determination to reflect the actual issue date

LIST OF ATTACHMENTS
WATAUGA ORTHOPAEDICS

Corporate documentation	<u>Attachment Section A, 1</u>
Lease agreement	<u>Attachment Section A, 6A</u>
Plot plan	<u>Attachment Section A, 6B (1)</u>
Floor plan	<u>Attachment Section A, 6B (2)</u>
Equipment quote	<u>Attachment Section A, 13B</u>
Letter from the project architect	<u>Attachment Section B, Need, 1, (1)</u>
MRI emergency protocol	<u>Attachment Section B, Need, 1, (2)</u>
Map of the service area	<u>Attachment Section B, Need, 3</u>
Population and demographics data	<u>Attachment Section B, Need, 4A</u>
Utilization data for MRI providers in PSA	<u>Attachment Section B, Need, 5</u>
Funding letter	<u>Attachment Section B, Economic Feasibility, 2</u>
Financial statements	<u>Attachment Section B, Economic Feasibility, 6A</u>
ACR Accreditation Certificate	<u>Attachment Section B, Orderly Development, 4B</u>



STATE OF TENNESSEE
Tre Hargett, Secretary of State
Division of Business Services
William R. Snodgrass Tower
312 Rosa L. Parks AVE, 6th FL
Nashville, TN 37243-1102

Filing Information

Name: **WATAUGA ORTHOPAEDICS, PLC**

General Information

SOS Control #	000287755	Formation Locale:	TENNESSEE
Filing Type:	Limited Liability Company - Domestic	Date Formed:	12/19/1994
	12/19/1994 10:22 AM	Fiscal Year Close	12
Delayed Effective Date:	12/19/1994 4:30 PM	Member Count:	11
Status:	Active		
Duration Term:	Expires: 12/19/2024		
Managed By:	Member Managed		

Registered Agent Address

MARC AIKEN
2410 SUSANNAH ST
JOHNSON CITY, TN 37601-1748

Principal Address

2410 SUSANNAH ST
JOHNSON CITY, TN 37601-1748

The following document(s) was/were filed in this office on the date(s) indicated below:

Date Filed	Filing Description	Image #
03/29/2016	2015 Annual Report	B0223-9174
02/11/2015	2014 Annual Report	B0048-9460
01/24/2014	2013 Annual Report	7276-0952
01/18/2013	2012 Annual Report	7133-2377
01/19/2012	2011 Annual Report	6985-0271
Principal Address 1 Changed From: 2410 SUSANNAH STREET To: 2410 SUSANNAH ST		
Principal Postal Code Changed From: 37601 To: 37601-1748		
Principal County Changed From: No value To: WASHINGTON COUNTY		
Member Count Changed From: 9 To: 11		
01/05/2011	2010 Annual Report	6805-2124
06/18/2010	2009 Annual Report	6734-0801
06/03/2010	Notice of Determination	A0021-3049
06/19/2009	2008 Annual Report	6556-1441
Member Count Changed		
06/03/2009	Notice of Determination	ROLL 6550
01/24/2008	2007 Annual Report	6193-1756

12/19/2016 9:19:31 AM

Page 1 of 2

Filing Information

Name: **WATAUGA ORTHOPAEDICS, PLC**

01/26/2007	2006 Annual Report	5928-2088
01/31/2006	2005 Annual Report	5671-2502
Member Count Changed		
02/07/2005	2004 Annual Report	5351-2840
02/11/2004	2003 Annual Report	5034-2965
02/27/2003	2002 Annual Report	4740-0944
01/28/2002	2001 Annual Report	4406-0736
Member Count Changed		
01/23/2001	2000 Annual Report	4099-0279
04/18/2000	1999 Annual Report	3889-2101
04/01/1999	CMS Annual Report Update	3661-3009
Registered Agent Changed		
12/19/1994	Initial Filing	2926-1819

Active Assumed Names (if any)

Date

Expires

DEC 16 11 31 38

ARTICLES OF ORGANIZATION

OF

WATAUGA ORTHOPAEDICS, PLC

DEC 19 11 10 22

The undersigned person, having capacity to contract and act as the Organizer of a limited liability company, adopts the following Articles of Organization for such Company under the Tennessee Limited Liability Company Act:


1. **Name.** The name of the Company is:

Watauga Orthopaedics, PLC
2. **Registered Office and Agent.** The Company's initial registered office is 2410 Susannah Street, Johnson City, Tennessee 37601, which is located in Washington County, and its initial registered agent at that office is William E. Kennedy.
3. **Organizer.** The Organizer of the Company is William E. Kennedy, whose address is 2410 Susannah Street, Johnson City, Tennessee 37601.
4. **Members.** At the date and time of formation, there are two (2) or more members of the Company. At the date of the filing of these Articles, there are five (5) members.
5. **Management.** The Company will be member-managed.
6. **Principal Executive Office.** The principal executive office of the Company is 2410 Susannah Street, Johnson City, Tennessee 37601, which is located in Washington County.
7. **Expulsion.** The Company has the power to expel a member.
8. **Period of Duration.** The period of duration of the Company shall be from the date of filing of these Articles until the first to occur of the following:
 - (a) thirty (30) years from the date of filing of these Articles with the Secretary of State, or
 - (b) dissolution of the Company by law or pursuant to the Operating Agreement adopted by the members of the Company.
9. **Preemptive Rights.** Members and parties (other than the Company) to a contribution agreement or a contribution allowance agreement have preemptive rights.

RECEIVED

10:55:19 AM 12/22/94
10: **Effective Date.** This document shall not be effective upon filing by the Secretary of State, but rather shall become effective at the close of business on December 31, 1994.

Dated: December 14, 1994.


William E. Kennedy, Organizer

LIMITED LIABILITY COMPANY ANNUAL REPORT
STATE OF TENNESSEE
SECRETARY OF STATE
SUITE 1800, JAMES K. POLK BUILDING
NASHVILLE, TN. 37243-0306

80505-1 810109

FOR OFFICE USE
ONLY

FILING FEE - \$50.00 PER MEMBER ON THE DATE OF FILING, WITH A MINIMUM FEE OF \$300.00 DOLLARS AND A MAXIMUM FEE OF \$3000.00

CURRENT FISCAL YEAR CLOSING MONTH: 12
CORRECT MONTH IS

IF DIFFERENT,

THIS REPORT IS DUE ON OR BEFORE:
04/01/99

(1) SECRETARY OF STATE CONTROL #: 0287755

FEDERAL EMPLOYER IDENTIFICATION #: 62-1586264

(2A) NAME AND MAILING ADDRESS OF LIMITED LIABILITY COMPANY

(2B) STATE OR COUNTRY OF FORMATION
TENNESSEE

WATAUGA ORTHOPAEDICS, PLC

2410 SUSANNAH STREET

JOHNSON CITY, TN 37601

|||||

D 12/19/1994

FOR PROFIT

(2C.) ADD OR CHANGE MAILING ADDRESS:

(3) A. PRINCIPAL ADDRESS INCLUDING CITY, STATE, ZIP CODE:

2410 SUSANNAH STREET, JOHNSON CITY, TN 37601

B. CHANGE OF PRINCIPAL ADDRESS:

STREET

CITY

STATE

ZIP CODE + 4

**** BLOCK 4 MUST BE COMPLETED OR THE ANNUAL REPORT WILL BE RETURNED ****

(4) NAME AND BUSINESS ADDRESS, INCLUDING ZIP CODE, OF ITS GOVERNORS, IF BOARD MANAGED; THE MANAGERS, IF MEMBER MANAGED.

(ATTACH ADDITIONAL SHEET IF NECESSARY.)

NAME

BUSINESS ADDRESS

CITY, STATE, ZIP CODE + 4

Marc Aiken, Chief Manager 2410 Susannah Street, Johnson City, Tennessee 37601

Paul Gorman, Secretary 2410 Susannah Street, Johnson City, Tennessee 37601

☐ BOARD MANAGED

☐ IS THIS LLC PROHIBITED FROM ENGAGING IN BUSINESS IN TENNESSEE?

☒ MEMBER MANAGED

(5) A. NAME OF REGISTERED AGENT AS APPEARS ON SECRETARY OF STATE RECORDS:

WILLIAM E. KENNEDY

B. REGISTERED ADDRESS AS APPEARS ON SECRETARY OF STATE RECORDS:

2410 SUSANNAH STREET, JOHNSON CITY, TN 37601

(6) INDICATE BELOW ANY CHANGES TO THE REGISTERED AGENT NAME AND/OR REGISTERED OFFICE.

(BLOCK 5A AND/OR 5B.) THERE IS AN ADDITIONAL \$20.00 FILING FEE REQUIRED FOR CHANGES MADE TO THIS INFORMATION.

A. CHANGE OF REGISTERED AGENT:

Marc Aiken

B. CHANGE OF REGISTERED OFFICE:

STREET

CITY

STATE

ZIP CODE + 4

COUNTY

(7) NUMBER OF MEMBERS AT THE DATE OF THIS FILING: 7

(8) SIGNATURE

(9) DATE

3/31/99

(10) TYPE/PRINT NAME OF SIGNER:

(11) TITLE OF SIGNER

Todd H. Fowler, M.D.

M.D.

**** THIS REPORT MUST BE DATED AND SIGNED ****



COMMERCIAL LEASE AGREEMENT

THIS LEASE AGREEMENT is made and entered into this 6th day of May , 2016, by and between WOPA Properties, whose address is 2410 Susannah Street, Johnson City, TN 37601 (hereinafter referred to as "Landlord"), and Watauga Orthopaedics, PLC, whose address is 2410 Susannah Street, Johnson City , TN 37601 (hereinafter referred to as "Tenant").

ARTICLE I - GRANT OF LEASE

Landlord, in consideration of the rents to be paid and the covenants and agreements to be performed and observed by the Tenant, does hereby lease to the Tenant and the Tenant does hereby lease and take from the Landlord the property at 875 Larry Neil Way, Kingsport, TN 37660, together with, as part of the parcel, all improvements located thereon.

ARTICLE II - LEASE TERM

Term of Lease. The term of this Lease shall begin on the 26th day of May, 2016, and shall terminate on the 31st day of May, 2018.

ARTICLE III – EXTENSIONS

The parties hereto may elect to extend this Agreement upon such terms and conditions as may be agreed upon in writing and signed by the parties at the time of any such extension.

ARTICLE IV - DETERMINATION OF RENT

Tenant and Landlord agree that rent shall be for the term of this agreement.

The Tenant agrees to pay the Landlord and the Landlord agrees to accept, during the term hereof, at such place as the Landlord shall from time to time direct by notice to the Tenant, rent at the following rates and times:

Section 1. Monthly Rent. Monthly rent for the term of the Lease, subject to the first paragraph of this article, shall be evaluated on an annual basis. In the event that the landlord deems a change is necessary, the rent will be adjusted without nullifying this agreement. Currently, the month lease amount is set at thirty-four thousand four hundred sixty-five dollars (\$34,465).

Section 2. Payment of Rent. The monthly rent shall be payable in advance on the first day of each and every calendar month during the term hereof, plus any extensions as may be agreed upon. A late fee in the amount of five hundred Dollars (\$500.00) shall be assessed if payment is not postmarked or received by Landlord on or before the tenth day of each month.

ARTICLE V – TAXES

Section 1. Personal Property Taxes. The Tenant shall be liable for all taxes levied against any leasehold interest of the Tenant or personal property and trade fixtures owned or placed by the Tenant in the Leased Premises.

Section 2. Real Estate Taxes. During the continuance of this lease Landlord shall deliver to Tenant a copy of any real estate taxes and assessments against the Leased Property. From and after the Commencement Date, the Tenant shall pay all real estate taxes and assessments applicable to the Leased Premises, together with any interest and penalties lawfully imposed thereon as a result of Tenant's late payment thereof, which shall be levied upon the Leased Premises during the term of this Lease.

Section 3. Payment of Ordinary Assessments. The Tenant shall pay all assessments, ordinary and extraordinary, attributable to or against the Leased Premises. The Tenant may take the benefit of any law allowing assessments to be paid in installments and in such event the Tenant shall only be liable for such installments of assessments due during the term hereof.

ARTICLE VI - OBLIGATIONS FOR REPAIRS

Section 1. LANDLORD'S Repairs. Subject to any provisions herein to the contrary, and except for maintenance or replacement necessitated as the result of the act or omission of sub-lessees, licensees or contractors, the Landlord shall be required to repair only defects, deficiencies, deviations or failures of materials or workmanship in the building.

Section 2. TENANT'S Repairs. The Tenant shall repair and maintain the Leased Premises in good order and condition, except for reasonable wear and tear, the repairs required of Landlord pursuant hereto, and maintenance or replacement necessitated as the result of the act or omission or negligence of the Landlord, its employees, agents, or contractors.

Section 3. TENANT'S Alterations. The Tenant shall have the right, at its sole expense, from time to time, to redecorate the Leased Premises and to make such non-structural alterations and changes in such parts thereof as the Tenant shall deem expedient or necessary for its purposes; provided, however, that such alterations and changes shall neither impair the structural soundness nor diminish the value of the Leased Premises.

The Tenant may make structural alterations and additions to the Leased Premises provided that Tenant has first obtained the consent thereto of the Landlord in writing. The Landlord agrees that it shall not withhold such consent unreasonably. The Landlord shall execute and deliver upon the request of the Tenant such instrument or instruments embodying the approval of the Landlord which may be required by the public or quasi public authority for the purpose of obtaining any licenses or permits for the making of such alterations, changes and/or installations in, to or upon the Leased Premises and the Tenant agrees to pay for such licenses or permits.

Section 4. Permits and Expenses. Each party agrees that it will procure all necessary permits for making any repairs, alterations, or other improvements for installations, when applicable. Each party agrees to pay promptly when due the entire cost of any work done by it upon the Leased Premises so that the Leased Premises at all times shall be free of liens for labor and materials. Each party further agrees to hold harmless and indemnify the other party from and against any and all injury, loss, claims or damage to any person or property occasioned by or arising out of the doing of any such work by such party or its employees, agents or contractors. Each party further agrees that in doing such work that it will employ materials of good quality and comply with all governmental requirements, and perform such work in a good and workmanlike manner.

ARTICLE VII - TENANT'S COVENANTS

Section 1. TENANT's Covenants. Tenant covenants and agrees as follows:

- a. To procure any licenses and permits required for any use made of the Leased Premises by Tenant, and upon the expiration or termination of this Lease, to remove its goods and effects and those of all persons claiming under it, and to yield up peaceably to Landlord the Leased Premises in good order, repair and condition in all respects; excepting only damage by fire and casualty covered by Tenant's insurance coverage, structural repairs (unless Tenant is obligated to make such repairs hereunder) and reasonable wear and tear;
- b. To permit Landlord and its agents to examine the Leased Premises at reasonable times and to show the Leased Premises to prospective purchasers of the Building and to provide Landlord, if not already available, with a set of keys for the purpose of said examination, provided that Landlord shall not thereby unreasonably interfere with the conduct of Tenant's business;
- c. To permit Landlord to enter the Leased Premises to inspect such repairs, improvements, alterations or additions thereto as may be required under the provisions of this Lease. If, as a result of such repairs,

improvements, alterations, or additions, Tenant is deprived of the use of the Leased Premises, the rent shall be abated or adjusted, as the case may be, in proportion to that time during which, and to that portion of the Leased Premises of which, Tenant shall be deprived as a result thereof.

ARTICLE VIII - INDEMNITY BY TENANT

Section 1. Indemnity and Public Liability. The Tenant shall save Landlord harmless and indemnify Landlord from all injury, loss, claims or damage to any person or property while on the Leased Premises, unless caused by the willful acts or omissions or gross negligence of Landlord, its employees, agents, licensees or contractors. Tenant shall maintain, with respect to the Leased Premises, public liability insurance with limits of not less than one million dollars for injury or death from one accident and \$250,000.00 property damage insurance, insuring Landlord and Tenant against injury to persons or damage to property on or about the Leased Premises. A copy of the policy or a certificate of insurance shall be delivered to Landlord on or before the commencement date and no such policy shall be cancellable without ten (10) days prior written notice to Landlord.

ARTICLE IX - USE OF PROPERTY BY TENANT

Section 1. Use. The Leased Premises may be occupied and used by Tenant exclusively as a medical office building. Nothing herein shall give Tenant the right to use the property for any other purpose.

ARTICLE X – SIGNAGE

Section 1. Exterior Signs. Tenant shall have the right, at its sole risk and expense and in conformity with applicable laws, ordinances, to erect and thereafter, to repair or replace, if it shall so elect signs on any portion of the Leased Premises, providing that Tenant shall remove any such signs upon termination of this lease, and repair all damage occasioned thereby to the Leased Premises.

Section 2. Interior Signs. Tenant shall have the right, at its sole risk and expense and in conformity with applicable laws and ordinances, to erect, maintain, place and install its usual and customary signs and fixtures in the interior of the Leased Premises.

ARTICLE XI - DAMAGE TO DEMISED PREMISES

Section 1. Abatement or Adjustment of Rent. If the whole or any part of the Leased Premises shall be damaged or destroyed by fire or other casualty after the execution of this Lease and before the termination hereof shall be deprived on account of such damage or destruction and the work of repair, restoration, rebuilding, or replacement or any combination thereof, of the improvements so damaged or destroyed, shall in no way be construed by any person to effect any reduction of sums or proceeds payable under any rent insurance policy.

Section 2. Repairs and Restoration. Landlord agrees that in the event of the damage or destruction of the Leased Premises, Landlord forthwith shall proceed to repair, restore, replace or rebuild the Leased Premises (excluding Tenant's leasehold improvements), to substantially the condition in which the same were immediately prior to such damage or destruction. The Landlord thereafter shall diligently prosecute said work to completion without delay or interruption except for events beyond the reasonable control of Landlord. Notwithstanding the foregoing, if Landlord does not either obtain a building permit within ninety (90) days of the date of such damage or destruction, or complete such repairs, rebuilding or restoration and comply with conditions (a), within nine (9) months of such damage or destruction, then Tenant may at any time thereafter cancel and terminate this Lease by sending ninety (90) days written notice thereof to Landlord, or, in the alternative, Tenant may, during said ninety (90) day period, apply for the same and Landlord shall cooperate with Tenant in Tenant's application. Notwithstanding the foregoing, if such damage or destruction shall occur during the last year of the term of this Lease, or during any renewal term, and shall amount to twenty-five (25%) percent or more of the replacement cost, (exclusive of the land and foundations), this Lease, except as hereinafter may be

terminated at the election of either Landlord or Tenant, provided that notice of such election shall be sent by the party so electing to the other within thirty (30) days after the occurrence of such damage or destruction. Upon termination, as aforesaid, by either party hereto, this Lease and the term thereof shall cease and come to an end, any unearned rent or other charges paid in advance by Tenant shall be refunded to Tenant, and the parties shall be released hereunder, each to the other, from all liability and obligations hereunder thereafter arising.

ARTICLE XII - CONDEMNATION

Section 1. Total Taking. If, after the execution of this Lease and prior to the expiration of the term hereof, the whole of the Leased Premises shall be taken under power of eminent domain by any public or private authority, or conveyed by Landlord to said authority in lieu of such taking, then this Lease and the term hereof shall cease and terminate as of the date when possession of the Leased Premises shall be taken by the taking authority and any unearned rent or other charges, if any, paid in advance, shall be refunded to Tenant.

Section 2. Partial Taking. If, after the execution of this Lease and prior to the expiration of the term hereof, any public or private authority shall, under the power of eminent domain, take, or Landlord shall convey to said authority in lieu of such taking, property which results in a reduction by fifteen (15%) percent or more of the area in the Leased Premises, or of a portion of the Leased Premises that substantially interrupts or substantially obstructs the conducting of business on the Leased Premises; then Tenant may, at its election, terminate this Lease by giving Landlord notice of the exercise of Tenant's election within thirty (30) days after Tenant shall receive notice of such taking. In the event of termination by Tenant under the provisions of Section 1 of this Article XIV, this Lease and the term hereof shall cease and terminate as of the date when possession shall be taken by the appropriate authority of that portion of the Entire Property that results in one of the above takings, and any unearned rent or other charges, if any, paid in advance by Tenant shall be refunded to Tenant.

Section 3. Restoration. In the event of a taking in respect of which Tenant shall not have the right to elect to terminate this Lease or, having such right, shall not elect to terminate this Lease, this Lease and the term thereof shall continue in full force and effect and Landlord, at Landlord's sole cost and expense, forthwith shall restore the remaining portions of the Leased Premises, including any and all improvements made theretofore to an architectural whole in substantially the same condition that the same were in prior to such taking. A just proportion of the rent reserved herein and any other charges payable by Tenant hereunder, according to the nature and extent of the injury to the Leased Premises and to Tenant's business, shall be suspended or abated until the completion of such restoration and thereafter the rent and any other charges shall be reduced in proportion to the square footage of the Leased Premises remaining after such taking.

Section 4. The Award. All compensation awarded for any taking, whether for the whole or a portion of the Leased Premises, shall be the sole property of the Landlord whether such compensation shall be awarded for diminution in the value of, or loss of, the leasehold or for diminution in the value of, or loss of, the fee in the Leased Premises, or otherwise. The Tenant hereby assigns to Landlord all of Tenant's right and title to and interest in any and all such compensation. However, the Landlord shall not be entitled to and Tenant shall have the sole right to make its independent claim for and retain any portion of any award made by the appropriating authority directly to Tenant for loss of business, or damage to or depreciation of, and cost of removal of fixtures, personal items and improvements installed in the Leased Premises by, or at the expense of Tenant, and to any other award made by the appropriating authority directly to Tenant.

Section 5. Release. In the event of any termination of this Lease as the result of the provisions of this Article XIV, the parties, effective as of such termination, shall be released, each to the other, from all liability and obligations thereafter arising under this lease.

ARTICLE XIII – DEFAULT

Section 1. LANDLORD'S Remedies. In the event that:

a. Tenant shall on three or more occasions be in default in the payment of rent or other charges herein required to be paid by Tenant (default herein being defined as payment received by Landlord ten or more days subsequent to the due date), regardless of whether or not such default has occurred on consecutive or non-consecutive months; or

b. Tenant has caused a lien to be filed against the Landlord's property and said lien is not removed within thirty (30) days of recordation thereof; or

c. Tenant shall default in the observance or performance of any of the covenants and agreements required to be performed and observed by Tenant hereunder for a period of thirty (30) days after notice to Tenant in writing of such default (or if such default shall reasonably take more than thirty (30) days to cure, Tenant shall not have commenced the same within the thirty (30) days and diligently prosecuted the same to completion); or

d. Sixty (60) days have elapsed after the commencement of any proceeding by or against Tenant, whether by the filing of a petition or otherwise, seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under the present or future Federal Bankruptcy Act or any other present or future applicable federal, state or other statute or law, whereby such proceeding shall not have been dismissed (provided, however, that the non-dismissal of any such proceeding shall not be a default hereunder so long as all of Tenant's covenants and obligations hereunder are being performed by or on behalf of Tenant); then Landlord shall be entitled to its election (unless Tenant shall cure such default prior to such election), to exercise concurrently or successively, any one or more of the following rights:

I. Terminate this Lease by giving Tenant notice of termination, in which event this Lease shall expire and terminate on the date specified in such notice of termination, with the same force and effect as though the date so specified were the date herein originally fixed as the termination date of the term of this Lease, and all rights of Tenant under this Lease and in and to the Premises shall expire and terminate, and Tenant shall remain liable for all obligations under this Lease arising up to the date of such termination, and Tenant shall surrender the Premises to Landlord on the date specified in such notice; or

ii. Terminate this Lease as provided herein and recover from Tenant all damages Landlord may incur by reason of Tenant's default, including, without limitation, a sum which, at the date of such termination, represents the then value of the excess, if any, of (a) the Minimum Rent, Percentage Rent, Taxes and all other sums which would have been payable hereunder by Tenant for the period commencing with the day following the date of such termination and ending with the date herein before set for the expiration of the full term hereby granted, over (b) the aggregate reasonable rental value of the Premises for the same period, all of which excess sum shall be deemed immediately due and payable; or

iii. Without terminating this Lease, declare immediately due and payable all Minimum Rent, Taxes, and other rents and amounts due and coming due under this Lease for the entire remaining term hereof, together with all other amounts previously due, at once; provided, however, that such payment shall not be deemed a penalty or liquidated damages but shall merely constitute payment in advance of rent for the remainder of said term. Upon making such payment, Tenant shall be entitled to receive from Landlord all rents received by Landlord from other assignees, tenants, and subtenants on account of said Premises during the term of this Lease, provided that the monies to which tenant shall so become entitled shall in no event exceed the entire amount actually paid by Tenant to Landlord pursuant to the preceding sentence less all costs, expenses and attorney's fees of Landlord incurred in connection with the re-letting of the Premises; or

iv. Allow the Premises to remain unoccupied and collect rent from Tenant as it comes due; or

v. Foreclose the security interest described herein, including the immediate taking of possession of all property on or in the Premises; or

vi. Pursue such other remedies as are available at law or equity.

e. Landlord's pursuit of any remedy or remedies, including without limitation, any one or more of the remedies stated herein shall not (1) constitute an election of remedies or preclude pursuit of any other remedy or remedies provided in this Lease or any other remedy or remedies provided by law or in equity, separately or concurrently

or in any combination, or (2) sever as the basis for any claim of constructive eviction, or allow Tenant to withhold any payments under this Lease.

ARTICLE XIV - EXTENSIONS/WAIVERS/DISPUTES

Section 1. Extension Period. Any extension hereof shall be subject to the provisions of Article III hereof.

Section 2. Holding Over. In the event that Tenant or anyone claiming under Tenant shall continue occupancy of the Leased Premises after the expiration of the term of this Lease or any renewal or extension thereof without any agreement in writing between Landlord and Tenant with respect thereto, such occupancy shall not be deemed to extend or renew the term of the Lease, but such occupancy shall continue as a tenancy at will, from month to month, upon the covenants, provisions and conditions herein contained. The rental shall be the rental in effect during the term of this Lease as extended or renewed, prorated and payable for the period of such occupancy.

Section 3. Waivers. Failure of either party to complain of any act or omission on the part of the other party, no matter how long the same may continue, shall not be deemed to be a waiver by said party of any of its rights hereunder. No waiver by either party at any time, express or implied, of any breach of any provision of this Lease shall be deemed a waiver of a breach of any other provision of this Lease or a consent to any subsequent breach of the same or any other provision. If any action by either party shall require the consent or approval of the other party, the other party's consent to or approval of such action on any one occasion shall not be deemed a consent to or approval of said action on any subsequent occasion or a consent to or approval of any other action on the same or any subsequent occasion. Any and all rights and remedies which either party may have under this Lease or by operation of law, either at law or in equity, upon any breach, shall be distinct, separate and cumulative and shall not be deemed inconsistent with each other, and no one of them, whether exercised by said party or not, shall be deemed to be an exclusion of any other; and any two or more or all of such rights and remedies may be exercised at the same time.

Section 4. Disputes. It is agreed that, if at any time a dispute shall arise as to any amount or sum of money to be paid by one party to the other under the provisions hereof, the party against whom the obligation to pay the money is asserted shall have the right to make payment "under protest" and such payment shall not be regarded as a voluntary payment and there shall survive the right on the part of the said party to institute suit for the recovery of such sum. If it shall be adjudged that there was no legal obligation on the part of said party to pay such sum or any part thereof, said party shall be entitled to recover such sum or so much thereof as it was not legally required to pay under the provisions of this Lease. If at any time a dispute shall arise between the parties hereto as to any work to be performed by either of them under the provisions hereof, the party against whom the obligation to perform the work is asserted may perform such work and pay the costs thereof "under protest" and the performance of such work shall in no event be regarded as a voluntary performance and shall survive the right on the part of the said party to institute suit for the recovery of the costs of such work. If it shall be adjudged that there was no legal obligation on the part of the said party to perform the same or any part thereof, said party shall be entitled to recover the costs of such work or the cost of so much thereof as said party was not legally required to perform under the provisions of this Lease and the amount so paid by Tenant may be withheld or deducted by Tenant from any rents herein reserved.

Section 5. TENANT'S Right to cure LANDLORD'S Default. In the event that Landlord shall fail, refuse or neglect to pay any mortgages, liens or encumbrances, the judicial sale of which might affect the interest of Tenant hereunder, or shall fail, refuse or neglect to pay any interest due or payable on any such mortgage, lien or encumbrance, Tenant may pay said mortgages, liens or encumbrances, or interest or perform said conditions and charge to Landlord the amount so paid and withhold and deduct from any rents herein reserved such amounts so paid, and any excess over and above the amounts of said rents shall be paid by Landlord to Tenant.

Section 6. Notices. All notices and other communications authorized or required hereunder shall be in writing and shall be given by mailing the same by certified mail, return receipt requested, postage prepaid, and any such notice or other communication shall be deemed to have been given when received by the party to whom such

notice or other communication shall be addressed. If intended for Landlord the same will be mailed to the address herein above set forth or such other address as Landlord may hereafter designate by notice to Tenant, and if intended for Tenant, the same shall be mailed to Tenant at the address herein above set forth, or such other address or addresses as Tenant may hereafter designate by notice to Landlord.

ARTICLE XV - PROPERTY DAMAGE

Section 1. Loss and Damage. Notwithstanding any contrary provisions of this Lease, Landlord shall not be responsible for any loss of or damage to property of Tenant or of others located on the Leased Premises, except where caused by the willful act or omission or negligence of Landlord, or Landlord's agents, employees or contractors, provided, however, that if Tenant shall notify Landlord in writing of repairs which are the responsibility of Landlord under Article VI hereof, and Landlord shall fail to commence and diligently prosecute to completion said repairs promptly after such notice, and if after the giving of such notice and the occurrence of such failure, loss of or damage to Tenant's property shall result from the condition as to which Landlord has been notified, Landlord shall indemnify and hold harmless Tenant from any loss, cost or expense arising therefrom.

Section 2. Force Majeure. In the event that Landlord or Tenant shall be delayed or hindered in or prevented from the performance of any act other than Tenant's obligation to make payments of rent, additional rent, and other charges required hereunder, by reason of strikes, lockouts, unavailability of materials, failure of power, restrictive governmental laws or regulations, riots, insurrections, the act, failure to act, or default of the other party, war or other reason beyond its control, then performance of such act shall be excused for the period of the delay and the period for the performance of such act shall be extended for a period equivalent to the period of such delay. Notwithstanding the foregoing, lack of funds shall not be deemed to be a cause beyond control of either party.

ARTICLE XVI - MISCELLANEOUS

Section 1. Assignment and Subletting. Under the terms and conditions hereunder, Tenant shall have the absolute right to sublet any portion of the Leased Premises. Landlord must consent in writing to any such sub-lessee, although such consent shall not be unreasonably withheld. The use of the Leased Premises by such assignee or sub-lessee shall be expressly limited by and to the provisions of this lease.

Section 2. Fixtures. All personal property, furnishings and equipment presently and all other trade fixtures installed in or hereafter by or at the expense of Tenant and all additions and/or improvements, exclusive of structural, mechanical, electrical, and plumbing, affixed to the Leased Premises and used in the operation of the Tenant's business made to, in or on the Leased Premises by and at the expense of Tenant and susceptible of being removed from the Leased Premises without damage, unless such damage be repaired by Tenant, shall remain the property of Tenant and Tenant may, but shall not be obligated to, remove the same or any part thereof at any time or times during the term hereof, provided that Tenant, at its sole cost and expense, shall make any repairs occasioned by such removal.

Section 3. Captions and Definitions of Parties. The captions of the Sections of this Lease are for convenience only and are not a part of this Lease and do not in any way limit or amplify the terms and provisions of this Lease. The word "Landlord" and the pronouns referring thereto, shall mean, where the context so admits or requires, the persons, firm or corporation named herein as Landlord or the mortgagee in possession at any time, of the land and building comprising the Leased Premises. If there is more than one Landlord, the covenants of Landlord shall be the joint and several obligations of each of them, and if Landlord is a partnership, the covenants of Landlord shall be the joint and several obligations of each of the partners and the obligations of the firm. Any pronoun shall be read in the singular or plural and in such gender as the context may require. Except as in this Lease otherwise provided, the terms and provisions of this Lease shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. Nothing contained herein shall be deemed or construed by the parties hereto nor by any third party as creating the relationship of principal and

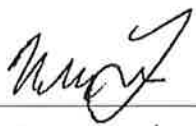
agent or of partnership or of a joint venture between the parties hereto, it being understood and agreed that neither any provision contained herein, nor any acts of the parties hereto, shall be deemed to create any relationship between the parties hereto other than the relationship of Landlord and Tenant.

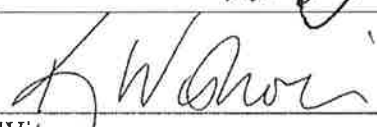
Section 4. Entire Agreement. This instrument contains the entire and only agreement between the parties, and no oral statements or representations or prior written matter not contained in this instrument shall have any force and effect. This Lease shall not be modified in any way except by a writing executed by both parties.

Section 5. Governing Law. All matters pertaining to this agreement (including its interpretation, application, validity, performance and breach) in whatever jurisdiction action may be brought, shall be governed by, construed and enforced in accordance with the laws of the State of Tennessee.

IN WITNESS WHEREOF, the parties hereto have executed this Lease the day and year first above written or have caused this Lease to be executed by their respective officers thereunto duly authorized. Signed, sealed and delivered in the presence of:

"LANDLORD"

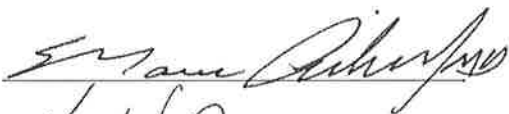





Witness

Mark McQuain, MD
Secretary
WOPA Properties

"TENANT"





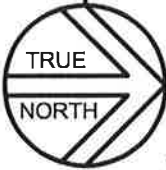
Witness

Marc Aiken, MD
President
Watauga Orthopaedics, PLLC

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THIS DRAWING IS THE PROPERTY OF CAINRASHWEST ARCHITECTS
AND SHALL BE RETURNED PER THEIR REQUEST

SITE PLAN

SCALE: 1" = 100'-0"



LOT 1
SULLIVAN LANDS,
INC. PROPERTY
D B K A D R O

LARRY NEIL
PROPERTY
P.B. 52, PG. 736

PROPOSED MRI
LOCATION

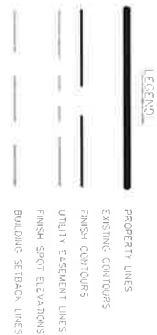
- BLOOMINGDALE LLC
3.3067, PG. 1505

EXISTING FACILITY
16,543 SF
TOTAL PROPERTY
5.65 ACRES
N/E 1282'-6"

2
875

K=23.56
CH=S85°50'36"E
21.21'

S40°50'36"E
610.48'



BLOOMINGDALE PIKE

WATAUGA ORTHOPAEDICS
KINGSPORT, TN

Architectural
Services

**Cain
Rash
West**
Architects

130 Regional Park Dr.
Kingsport, TN 37660
Phn (423) 349-7760
Fax (423) 349-7413
www.grcinc.com

issued 12-19-16

drawn by SD

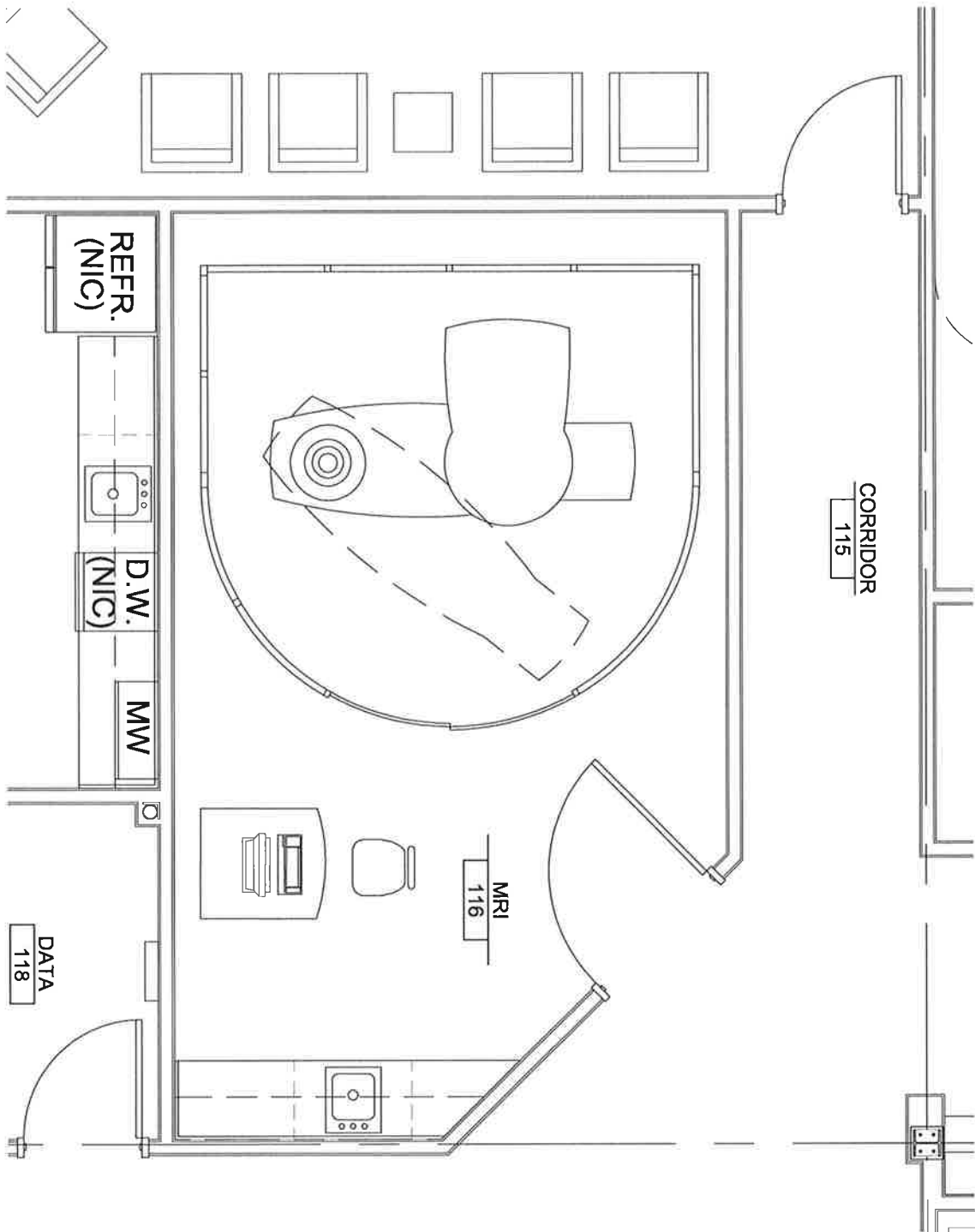
project no. 201596

drawing name

SITE PLAN

C-10

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PARTIAL FLOOR PLAN

SCALE: 1/4" = 1'-0"



WATAUGA ORTHOPAEDICS
KINGSPORT, TN

Architectural Services

**Cain
Rash
West**
Architects

130 Regional Park Dr.
Kingsport, TN 37660
Phn (423) 349-7760
Fax (423) 349-7413
www.grcinc.com

issued 12-15-16

drawn by SD

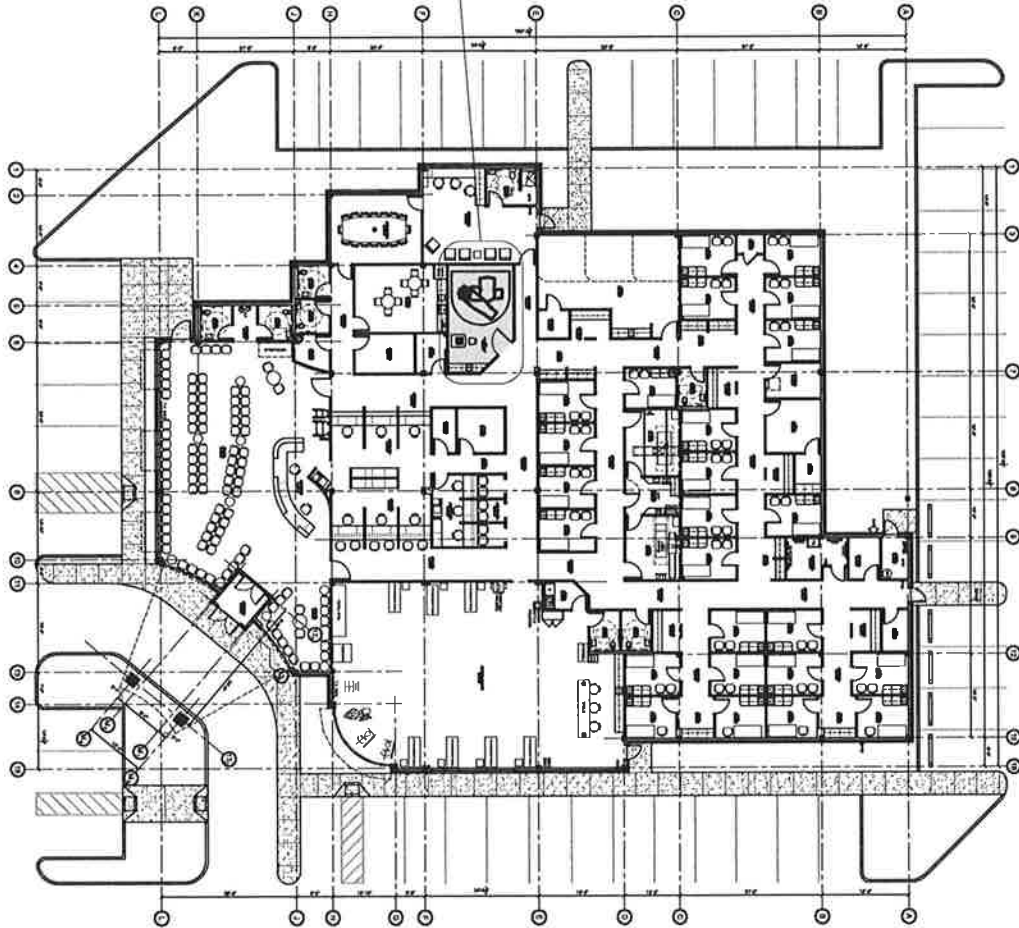
project no.

drawing name
PARTIAL FLOOR PLAN

A-11

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PROPOSED MRI
LOCATION



FLOOR PLAN

SCALE: 1" = 40'-0"



WATAUGA ORTHOPAEDICS
KINGSPORT, TN

Architectural
Services

**Cain
Rash
West**
Architects

130 Regional Park Dr.
Kingsport, TN 37660
Phn (423) 349-7760
Fax (423) 349-7413
www.grcinc.com

Issued 12-19-16

drawn by SD

project no. 201696

drawing name
FLOOR PLAN

A-10



120 Vista Blvd.
Arden, NC. 28704
1-800-727-7290



QUOTE: # 15034

Date: September 7, 2016

Sales Consultant: Matt Clevenger

Email: mclevenger@brxray.com

828-713-9795

Customer:

Watauga Orthopedics

2410 Susannah Street, Johnson City, TN 37601



Esaote, the leading provider of Dedicated MSK MRI systems, is pleased to offer the following system:

Order Contents:

Quantity	Item #	Item Description
1	9800020015	S-scan Dedicated MRI System with eXP
1	229041900	S-scan Standard Patient Table
1	9101984005	S-scan RF Pavillon
1	9102908100	Magnetic Compensation Module
1	9102607002	Accessory Cupboard
1	9380020300	Uninterruptible Power Supply, PC
1	9380020800	Uninterruptible Power Supply, MRI
1	229021700	Advanced Spine Coil Package

MRI System Total:**

\$550,000.00

**:. This total does not include sales tax or rigging costs. Sales tax will be added to final invoice. Rigging costs are the responsibility of the customer. If required, a rigging estimate will be determined during site test. Customer shall receive a separate document, requiring customer signature as acceptance of those proposed charges. These charges may be available for financing in your lease. (See page 9 for descriptions of various levels of cost).

See the following S-scan description for a complete review of system components and specifications.

Page 1 of 16

Purchaser's Initials _____

Attachment Section
A, 13B

PA No. ServiceMIRISSCANBR20160906

PA Date: September 6, 2016

Watauga Orthopedics
2410 Susannah Street, Johnson City, TN 37601
(423) 282-9011



Point of Sale Service Contract

Check & Initial Acceptance

<input type="checkbox"/>	9102908201	4-Year Service Contract <i>Pricing only valid if included in financing at point of sale.</i> Invoices will be sent approximately 30 days prior to the end of the warranty period or start of contract		\$140,000.00
--------------------------	------------	--	--	--------------

4-Year Service Contract (Pricing only valid if included in financing at point of sale)

Initial Acceptance below:

The agreement will commence on warranty expiration

Description of Service	Qty	Annual Service Fee	Contract Term	Contract Total
EsaoteCare GOLD MRI - S-Scan MRI with EXP	1	\$35,000.00	4 Years	\$140,000.00
<ul style="list-style-type: none">- Esaote Certified Parts for system, workstation and includes shipping- Technical phone support from 8am - 5pm- Remote diagnostics & servicing when available- On-site labor & travel for system repairs- 98% Uptime Guarantee- RF door fingers, collars and bags- Software Upgrades*- Three Quality Assurance visits per year Contract Excludes: <ul style="list-style-type: none">- Any new hardware required to run software upgrades- Workstation upgrade not included				
			Price:	\$140,000.00
			Sales Tax:	** TBD
**Applicable Sales Tax will be added to invoice and is the responsibility of the Buyer.			Total:	\$140,000.00 ** TAX TBD

Select payment option by initialing below:

ANNUAL OPTION _____<- Initial Annual Agreement: \$35,000.00 plus tax	QUARTERLY OPTION _____<- Initial Quarterly basis: \$8,750.00 plus tax
MONTHLY OPTION _____<- Initial Monthly basis: \$2,916.67 plus tax	MONTHLY LEASE OPTION _____<- Initial

Invoices will be sent approximately 30 days prior to the end of the warranty period or start of contract



December 19, 2016

Kim Wishon, MBA, FACMPE

Chief Executive Officer
Watauga Orthopaedics, PLC
2410 Susannah Street
Johnson City, Tennessee 37601

RE: New Extremities MRI
Watauga Orthopaedics Offices
Kingsport, Tennessee 37660

Dear Ms. Wishon,

We have reviewed the design and installation requirements for the proposed MRI equipment and based on our professional experience with the design and construction of other related healthcare facilities; believe the cost of \$50,000 with a 10% contingency of \$5,000 appears to be appropriate for the scope of work required for this project.

This project will be design and constructed to meet all the following applicable codes:

Tennessee Department of Health and the City of Kingsport, Tennessee

- 2012 International Building Codes
- 2011 National Electric Code
- 2012 International Energy Conservation Code
- 2012 NFPA 101 Life Safety Code
- 2002 North Carolina Accessibility Code with 2004 Amendments
- 2010 ADA Standards for Accessible Design
- 2012 FGI- Guidelines for Design and Construction of Health Care Facilities
- 2008 ASHRAE Handbook of Fundamentals
- The MRI will be in conformance with all MRI manufacture's required specifications

If you have any additional comments or questions, please feel free to contact me at 423-349-7760.

Sincerely,

M. Hiram Rash, AIA
President
CainRashWest Architects



2410 Susannah Street
JOHNSON CITY, TENNESSEE 37605
Telephone (423) 282-9011
Fax (423) 282-0035

MRI EMERGENCY OR CODE PROCEDURE

PURPOSE: To provide a protocol for the treatment of emergency or code patients in the MRI section of Radiology.

POLICY:

1. MRI personnel will initiate Basic Life Support and notify nursing personnel by depressing the emergency alert (small square button directly behind computer station). Nursing personnel are not to enter scan room.
2. All priorities should be focused on stabilizing (manual ventilations and cardiac compressions) and then evacuating the patient rapidly and safely as possible from the magnet environment.
3. MRI personnel will undock the table and transport the patient from the scanner to a safe zone outside of the magnetic field before full resuscitative measures can be continued.

The following procedures should be followed in the event of a fire in the suite in order to prevent additional hazards to the individual or facility.

RESPONSE TO A FIRE

A. If you discover a fire, follow this order of response:

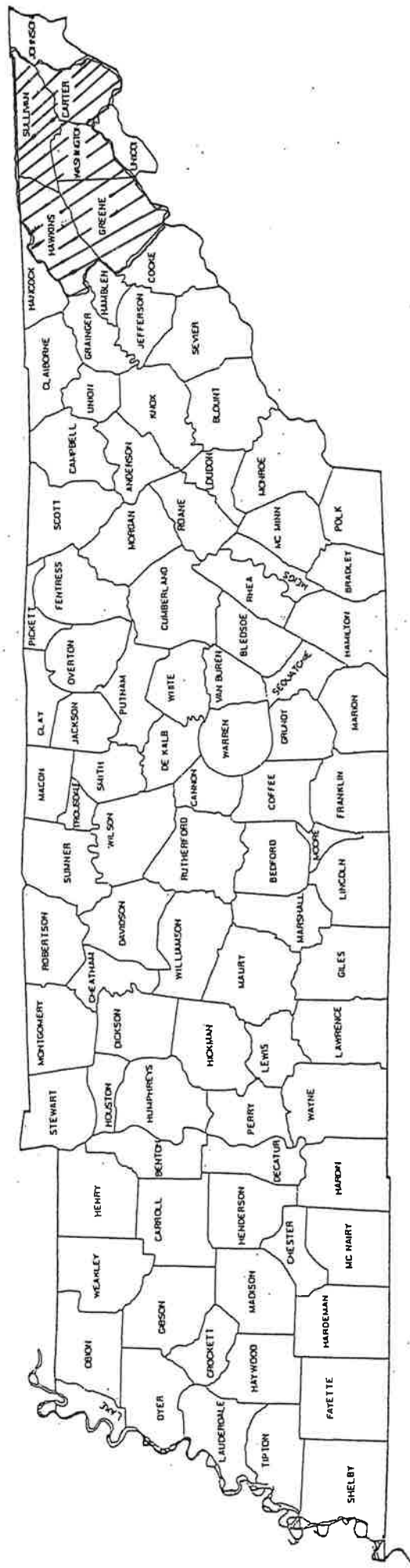
1. Rescue (evacuate patient)
2. Alert
3. Confine
4. Extinguish

B. In trying to extinguish or contain the fire, do not jeopardize your own safety. Do the following:

1. Disconnect electrical power to the MRI or NMR system by pressing the emergency "off" buttons.
2. Use only a non-magnetic extinguisher.
3. If the fire is not extinguished after emptying the available extinguisher, or if your safety is endangered, remove the magnetic field by pressing a "quench" button or the Emergency Rundown Unit.
4. Screen all personnel, including firefighters, for entry to the restricted magnetic field area.

C. If a fire breaks out in the computer room:

1. Disconnect electrical power by pressing the emergency "off" buttons.
2. If the fire is not extinguished after you have emptied the fire extinguisher, or if personnel are endangered, evacuate the room and manually activate the whole-room halon fire extinguisher. If this extinguisher goes off automatically, evacuate the room immediately.



Demographic Variable/ Geographic Area	Department of Health/Health Statistics							Bureau of the Census				TennCare	
	Total Population- Current Year	Total Population- Projected Year	Total Population- % Change	*Target Population- Current Year	*Target Population- Project Year	*Target Population-% Change	Target Population Projected Year as % of Total	Median Age	Median Household Income	Person Below Poverty Level**	Person Below Poverty Level as % of Total	TennCare Enrollees	TennCare Enrollees as % of Total
Sullivan County	158,938	159,749	0.51%	127,854	129,225	1.07%	81%	44.3	\$40,346	27,814	17.5%	36,022	22.7%
Hawkins County	58,771	59,784	1.72%	46,622	48,045	3.05%	80%	43.4	\$36,927	11,225	19.1%	14,602	24.8%
Washington County	133,817	140,905	5.30%	107,077	113,097	5.62%	80%	39.8	\$42,817	24,221	18.1%	25,984	19.4%
Greene County	72,512	74,656	2.96%	58,221	60,547	4.00%	81%	43.7	\$35,196	14,865	20.5%	16,500	22.8%
Carter County	58,139	58,375	0.41%	46,919	47,458	1.15%	81%	43.6	\$33,213	13,721	23.6%	13,928	24.0%
Primary Service Area Total	482,177	493,469	2.34%	386,693	398,372	3.02%	81%	42.96	\$37,700	91,846	19.0%	107,036	22.2%
State of TN Total	6,812,005	6,962,031	2.20%	5,241,318	5,368,064	2.42%	77%	38.4	\$45,219	1,198,913	17.6%	1,565,932	23.0%

*The Target Population is the 18+ age group. Although Watauga will treat some pediatric cases, it is estimated that approximately 90% of scans will be for the adult population.

**The Census Bureau website does not provide the number of persons below poverty level. The totals in this column are calculated by percentage of individuals below below poverty level in 2015 divided by total population in 2016.

Sources: <http://www.tn.gov/health/article/statistics-population>; <http://www.tn.gov/tenncare/topic/enrollment-data>; <http://factfinder.census.gov/faces/nav/jsf/pages/index.xhtml>

MRI UTILIZATION IN SERVICE AREA -- 2015

County	Provider	Year	Number of Units	Fixed or Mobile	Total Scans	Scans per Unit (Reporting Units)	Total Gross Charges	Gross Charge per Scan
Carter	Medical Care, PLLC (Elizabethton)	2015	0*	Fixed (Shared)	126**	N/A	\$193,193.00	\$1,533.28
Carter	Sycamore Shoals Hospital	2015	1	Fixed (Shared)	1,944	1,944	\$8,336,068.00	\$4,288.10
Greene	Laughlin Memorial Hospital, Inc.	2015	2	Fixed	3,284	1,642	\$5,892,623.00	\$1,794.34
Greene	Takoma Regional Hospital	2015	1	Fixed	1,880	1,880	\$6,047,703.00	\$3,216.86
Hawkins	Hawkins County Memorial Hospital	2015	0.6	Mobile (Part)	974	1,623	\$2,903,361.00	\$2,980.86
Sullivan	Appalachian Orthopaedic Associates, PC (No Report)	2015	1	Fixed	N/R	N/R	N/R	N/R
Sullivan	Bristol Regional Medical Center	2015	2	Fixed	8,452	4,226	\$24,929,670.00	\$2,949.56
Sullivan	Holston Valley Imaging Center, LLC	2015	3	Fixed	8,970	2,990	\$27,034,949.00	\$3,013.93
Sullivan	Holston Valley Medical Center	2015	1	Fixed	3,148	3,148	\$8,742,482.00	\$2,777.15
Sullivan	Indian Path Medical Center	2015	1	Fixed	3,173	3,173	\$14,815,682.00	\$4,669.30
Sullivan	Meadowview Outpatient Diagnostic Center	2015	1	Fixed	4,178	4,178	\$7,253,748.00	\$1,736.18
Sullivan	Sapping Grove Outpatient Diagnostic Center	2015	1	Fixed	2,158	2,158	\$3,706,021.00	\$1,717.34
Sullivan	Volunteer Parkway Imaging Center	2015	1	Fixed	1,413	1,413	\$4,279,316.00	\$3,028.53
Washington	Appalachian Orthopaedic Associates - Johnson City (No Report)	2015	1	Fixed	0	0	\$0.00	N/A
Washington	Franklin Woods Community Hospital	2015	1	Fixed	4,432	4,432	\$20,893,318.00	\$4,714.20
Washington	Johnson City Medical Center	2015	2	Fixed	6,467	3,234	\$30,147,670.00	\$4,661.77
Washington	Mountain States Imaging at Med Tech Parkway	2015	1	Fixed	2,666	2,666	\$12,223,222.00	\$4,584.85
Washington	Watauga Orthopaedics, PLC	2015	1	Fixed	2,465	2,465	\$3,565,010.00	\$1,446.25
TOTAL			21.6		55,604	2,837	\$180,964,036.00	\$3,254.51

Source: HSDA Medical Equipment Registry - 12/8/2016

*Same unit as Sycamore Shoals

**Included in Sycamore Shoals volume

MRI UTILIZATION IN SERVICE AREA -- 2014

County	Provider	Year	Number of Units	Fixed or Mobile	Total Scans	Scans per Unit	Total Gross Charges	Gross
								Charge per Scan
Carter	Sycamore Shoals Hospital	2014	1	Fixed	1,880	1,880	\$8,501,032.00	\$4,521.83
Greene	Laughlin Memorial Hospital, Inc.	2014	2	Fixed	3,248	1,624	\$5,776,872.00	\$1,778.59
Greene	Takoma Regional Hospital	2014	1	Fixed	2,224	2,224	\$6,931,183.00	\$3,116.54
Hawkins	Hawkins County Memorial Hospital	2014	0.6	Mobile (Part)	807	1,345	\$2,167,408.00	\$2,685.76
Sullivan	Appalachian Orthopaedic Associates, PC	2014	1	Fixed	183	183	\$194,772.00	\$1,064.33
Sullivan	Bristol Regional Medical Center	2014	2	Fixed	6,151	3,076	\$16,824,161.00	\$2,735.19
Sullivan	Holston Valley Imaging Center, LLC	2014	3	Fixed	6,516	2,172	\$17,183,862.00	\$2,637.18
Sullivan	Holston Valley Medical Center	2014	1	Fixed	2,867	2,867	\$7,705,558.00	\$2,687.67
Sullivan	Indian Path Medical Center	2014	1	Fixed	2,913	2,913	\$13,440,350.00	\$4,613.92
Sullivan	Meadowview Outpatient Diagnostic Center	2014	1	Fixed	4,187	4,187	\$7,122,294.00	\$1,701.05
Sullivan	Sapling Grove Outpatient Diagnostic Center	2014	1	Fixed	2,231	2,231	\$4,055,411.00	\$1,817.75
Sullivan	Volunteer Parkway Imaging Center	2014	1	Fixed	1,153	1,153	\$3,067,546.00	\$2,660.49
Washington	Appalachian Orthopaedic Associates - Johnson C	2014	1	Fixed	123	123	\$128,891.00	\$1,047.89
Washington	Franklin Woods Community Hospital	2014	1	Fixed	3,772	3,772	\$17,453,617.00	\$4,627.15
Washington	Johnson City Medical Center	2014	2	Fixed	6,575	3,288	\$30,780,977.00	\$4,681.52
Washington	Mountain States Imaging at Med Tech Parkway	2014	1	Fixed	2,328	2,328	\$10,646,300.00	\$4,573.15
Washington	Watauga Orthopaedics, PLC	2014	1	Fixed	2,221	2,221	\$3,212,000.00	\$1,446.20
TOTAL			21.6		49,379	2,286	\$155,192,234.00	\$3,142.88

Source: HSDA Medical Equipment Registry - 12/8/2016

MRI UTILIZATION IN SERVICE AREA -- 2013

County	Provider	Year	Number of Units	Fixed or Mobile	Total Scans	Scans per Unit	Total Gross Charges	Gross Charge per Scan
Carter	Sycamore Shoals Hospital	2013	1	Fixed	1,719	1,719	\$7,505,749.00	\$4,366.35
Greene	Laughlin Memorial Hospital, Inc.	2013	2	Fixed	3,159	1,580	\$5,453,777.00	\$1,726.43
Greene	Takoma Regional Hospital	2013	1	Fixed	1,610	1,610	\$4,893,015.00	\$3,039.14
Hawkins	Hawkins County Memorial Hospital	2013	0.6	Mobile (Part)	877	1,462	\$2,318,663.00	\$2,643.86
Sullivan	Appalachian Orthopaedic Associates, PC	2013	1	Fixed	214	214	\$227,674.00	\$1,063.90
Sullivan	Bristol Regional Medical Center	2013	2	Fixed	6,323	3,162	\$17,397,570.00	\$2,751.47
Sullivan	Holston Valley Imaging Center, LLC	2013	3	Fixed	8,787	2,929	\$23,567,834.00	\$2,682.13
Sullivan	Holston Valley Medical Center	2013	1	Fixed	3,326	3,326	\$8,994,777.00	\$2,704.38
Sullivan	Indian Path Medical Center	2013	1	Fixed	2,807	2,807	\$12,275,782.00	\$4,373.27
Sullivan	Meadowview Outpatient Diagnostic Center	2013	1	Fixed	4,350	4,350	\$7,378,329.00	\$1,696.17
Sullivan	Sapling Grove Outpatient Diagnostic Center	2013	1	Fixed	2,245	2,245	\$3,900,816.00	\$1,737.56
Sullivan	Volunteer Parkway Imaging Center	2013	1	Fixed	1,239	1,239	\$3,297,136.00	\$2,661.13
Washington	Appalachian Orthopaedic Associates - Johnson C	2013	1	Fixed	188	188	\$199,865.00	\$1,063.11
Washington	Franklin Woods Community Hospital	2013	1	Fixed	3,529	3,529	\$15,556,198.00	\$4,408.10
Washington	Johnson City Medical Center	2013	2	Fixed	6,617	3,309	\$29,626,271.00	\$4,477.30
Washington	Mountain States Imaging at Med Tech Parkway	2013	1	Fixed	2,448	2,448	\$10,545,194.00	\$4,307.68
Washington	Watauga Orthopaedics, PLC	2013	1	Fixed	2,337	2,337	\$3,389,074.00	\$1,450.18
TOTAL			21.6		51,775	2,397	\$156,527,724.00	\$3,023.23

Medical Equipment Registry - 12/8/2016



December 28, 2016

Erik Garkovich
First Tennessee Bank, N.A.
800 S. Gay St – 5th Floor
Knoxville, TN 37929

Kim Wishon
Watauga Orthopaedics, PLC
2220 Sutherland Ave
Knoxville, TN 37919

Re: Watauga Orthopaedics PLC – MRI Machine

Dear Kim:

It is a pleasure to extend to you, on behalf of Watauga Orthopaedics, PLC the “Borrower”) the following Term Sheet of First Tennessee Bank National Association (“Lender”) to loan to the Borrower up to \$550,000 the proceeds of which shall be used to purchase an MRI machine in the name of the Borrower. A term sheet is designed to be a discussion and negotiation document between the Bank and the Borrower. General terms and conditions can be outlined in the term sheet by both parties and utilized to assist in final documentation. Please note that final documentation is the binding agreement between the parties. A term sheet is not a commitment to lend, and it can be abandoned at any time by either party. The below signatures are required by both the bank officer and the borrower for acknowledgement of these terms and conditions and to proceed to final approval.



BORROWER:	Watauga Orthopaedics, PLC
PURPOSE:	Purchase of MRI Machine
COMMITMENT AMOUNT:	\$550,000
RATE:	Fixed Interest Rate of 5%
MATURITY DATE:	84 months from date of closing
REPAYMENT TERMS:	84 monthly principal and interest payments of approximately \$7,791.61
COLLATERAL:	Purchase money security interest on MRI Machine (Serial number unknown)
COMMITMENT FEE:	No Fee
GUARANTORS:	Pro-Rata limited guarantees of 11 physicians (Total=125%)
COVENANTS/CONDITIONS:	<ul style="list-style-type: none">• Borrower to provide corporate tax return annually within 30 days of applicable filing date• Borrower to provide fiscal year-end company prepared financial statements within 120 days of year-end.• Guarantors to provide updated personal financial statements annually and no later than 16 months from previously submitted statement.• Guarantors to provide updated personal tax return including all schedules annually within 30 days of the applicable filing date.



Borrower may accept the terms of this commitment letter by signing the enclosed copy and delivering a signed copy to Lender on or before March 1, 2017. Lender reserves the right to cancel if Lender does not receive the fully executed acceptance by the date set forth above.

Very truly yours,

FIRST TENNESSEE BANK NATIONAL
ASSOCIATION

By: Eil Garkovil
Title: Vice President
Date: 12/28/2016

The undersigned hereby accepts the foregoing Term Sheet on behalf of Watauga Orthopaedics, PLC and agrees to proceed towards final loan approval.

By: _____
Title: _____
Date: _____

Watauga Orthopaedics, PLC
Income Statement "All Departments Combined"
For the Twelve Months Ending December 31, 2015

		Current Month	Year to Date
Revenues			
40101	Revenue from Ortholink	\$ 2,316,546.34	\$ 2,316,546.34
40101 KPT	OL Reimbursement Refunds PLC	131,741.59	131,741.59
40101 PLC	Post CLOSE GPMS Payments	2,077.04	25,897.82
40102 PLC	GPMS Abandonment	0.00	(21.99)
40105 PLC	Less: Refunds	1,460.61	1,460.61
40106 PLC	Less: Refunds In House	167,025.60	0.00
40150 KPT	Income From Pt. Accts. OL KPT	319,711.54	3,717,879.60
40150 KPTDME	Income From Pt. Accts OLKP DME	20,274.03	242,782.27
40150 KPTPT	Income From Pt. Acct.OL KPT-PT	43,254.91	388,509.90
40150 MRI	Income From Pt. Accts. OL MRI	89,823.15	1,010,202.95
40150 PLC	Income From Pt. Accts. OL PLC	607,362.29	7,458,935.93
40150 PLCDME	Income From Pt. Accts OL PLCDM	52,498.24	551,671.84
40150 PT	Income From Pt. Accts. OL P.T.	95,521.37	1,052,768.88
49204 PLC	Recruitment Income	0.00	125,000.00
49205 PLC	Withhold - Highlands Physician	0.00	6,814.09
49207 PLC	Cash Rebates	0.00	32.42
49209 PLC	OrthoShops Income	0.00	30.98
49210 PLC	JCMCH - Trauma Call Income	14,400.00	194,400.00
49211 PLC	HVH - Trauma Call Income	23,800.00	234,600.00
49214 PLC	Misc Settlements	0.00	50.00
49221 PLC	Medical Records Income	71.80	12,874.31
49227 PLC	Notary Certification Income	0.00	317.20
49900 PLC	Other Income	6,032.66	42,928.75
49907 PLC	Loss on Sale of Assets	0.00	71.28
49908 PLC	ETSU-Sports Medicine Teaching	0.00	13,750.00
49909 PLC	Wellmont/Krenk Lease Agreement	46,256.28	327,421.72
49917 PLC	Interest Income - All Other	0.00	0.43
49918 PLC	Interest Income -First TN Bank	44.65	525.59
49935 PLC	Sale of Used Computer Equipmen	40.00	65.00
49939 PLC	Krenk/Wellmont Rent Income	1,650.31	21,670.03
49940 PLC	Gain/Loss on Sale of Agent	(20.00)	(20.00)
	Total Revenues	3,939,572.41	17,878,907.54
Cost of Sales			
	Total Cost of Sales	0.00	0.00
	Gross Profit	3,939,572.41	17,878,907.54
Expenses			
50000 PLC	Personnel Expenses	4,980,136.12	4,980,136.12
50085 PLC	Salaries & Wages - J.C. Staff	(253.27)	0.00
50089 PLC	Salaries & Wages-KJL OrthoLink	(325,566.07)	0.00
50090 PLC	Salaries & Wages - Aiken	80,923.88	605,758.27
50091 PLC	Salaries & Wages - DeTroye	89,603.22	485,735.38
50092 PLC	Salaries & Wages - Duncan	105,824.71	586,200.16
50093 PLC	Salaries & Wages - Fowler	84,673.16	449,967.79
50094 PLC	Salaries & Wages - Grant	117,390.35	539,276.17
50095 PLC	Salaries & Wages - McQuain	69,903.67	361,203.50
50096 PLC	Salaries & Wages - McRae	82,455.66	406,053.03
50097 PLC	Salaries & Wages - Stewart	106,974.38	636,111.96
50100 PLC	Salaries & Wages - Jenkins	117,505.47	762,571.78
50101 PLC	Salaries & Wages - Parks	105,920.89	608,351.12
50102 PLC	Salaries & Wages - Wells	120,168.78	706,027.91
50114 PLC	Federal Withholding	68,453.92	0.00
50115 PLC	Employer SS Tax Expense (FICA)	12,758.30	0.00
50150 PLC	Occupancy Expenses	859,681.00	859,681.00
50151 KPT	Kingsport Office Rent	19,657.32	0.00

For Management Purposes Only

Watauga Orthopaedics, PLC
Income Statement "All Departments Combined"
For the Twelve Months Ending December 31, 2015

		Current Month	Year to Date
50152 PLC	Rent - Storage Bldg.	(385.00)	0.00
50155 PLC	Misc. Banking Expenses	(84.67)	0.00
50157 PLC	Bank Analysis Service Charge	(81.48)	0.00
50160 PLC	Telephone - JCO	(362.65)	0.00
50163 PLC	Telephone On Hold	(455.94)	0.00
50164 PLC	MRI Maintenance Contract	24,227.30	0.00
50165 PLC	Banking Service Charges	(5.00)	0.00
50170 PLC	Utilities - J.C. Office	297.38	0.00
50171 PLC	Electricity - JCO Office	(567.54)	0.00
50190 PLC	Office Supplies	59.75	0.00
50191 PLC	Printing Expense	(16.52)	0.00
50319 PLC	Food - Paramedical	(59.75)	0.00
50330 PLC	Medical Supplies	979,952.00	979,952.00
50360	Owner Life Insurance	13,774.00	13,774.00
50360 PLC	Hartford - Insurance - Life, et	(17,069.74)	0.00
50364 PLC	Aflac Group Insurance	(6,561.91)	0.00
50365 PLC	Insurance - Disability	(11,057.95)	0.00
50370 PLC	Insurance - Health	(127,256.82)	0.00
50371 PLC	Insurance- Health Reim from OL	67,308.09	0.00
50372 PLC	HSA Physicians Funding	(11,499.66)	0.00
50373 PLC	HSA Staff Funding	(19,294.81)	0.00
50374 PLC	HRA Weekly Claims	(2,613.66)	0.00
50375 PLC	FSA Weekly Claims	(1,030.67)	0.00
50376 PLC	HRA/FSA Reim from Ortholink	2,471.56	0.00
50380 PLC	Insurance - Malpractice	7,900.00	0.00
50410 PLC	Gifts	(1,011.00)	0.00
50439 PLC	Administrative Expenses	2,104,611.20	2,104,611.20
50440 PLC	Other Expenses	(44.00)	0.00
50455 KPT	Tenn. Sales & Use Tax	(48.00)	0.00
50455 PLC	Tenn. Sales & Use Tax	(14.00)	0.00
50456 PLC	Tenn. Franchise, Excise Tax	3,440.00	13,986.00
50457 PLC	Tenn. LLC Tax	0.00	550.00
50530 PLC	Clinic Expenses PLC	(7,680,159.84)	100,000.00
50530 PT	Clinic Expenses P.T.	24.00	0.00
50543 PLC	Phys&PC 401(k) Match Expense	87,450.00	87,450.00
6755o PLC	Miscellaneous Expense - Physic	44.00	0.00
80000 PLC	Depreciation Expense	25,347.06	25,347.06
	Total Expenses	<u>2,133,437.22</u>	<u>15,312,744.45</u>
	Net Income	<u>\$ 1,806,135.19</u>	<u>\$ 2,566,163.09</u>

Watauga Orthopaedics, PLC
Balance Sheet
December 31, 2015

ASSETS

Current Assets

Checking ROTA Account \$350.00	10100	\$	450.00
Kingsport Cash Drawer	10195		300.00
Back Up Cash Drawer	10196		150.00
Greeneville Cash Drawer	10197		150.00
Petty Cash	10198		600.00
PT Cash Drawer	10199		250.00
PLC Cash Drawer 7 @ \$150.00 ea	10200		1,050.00
First Resource Savings PLC	10250 PLC		1,051,587.16
Refund Checking Account	10275		3,460.61
Athena Refund Checking Account	10276		100.00
Checking Account PLC	10300 PLC		51,822.56
Athena Cash & Cks PLC	10500		883,537.13
Athena Sweep Account	10900		206,501.75
Due from TAF Disability Pmt	12957 PLC		3,621.74
Due from JMW Disability Pmt	12960 PLC		3,690.96
Due from MTM Disb,STD, AD&D	12961 PLC		1,522.26
Due from GLS Disab,STD, AD&D	12962 PLC		1,625.75

Total Current Assets 2,210,419.92

Property and Equipment

Equipment & Furniture KPT	15000 KPT		39,807.00
Equipment & Furniture	15000 MRI		13,500.00
Equipment & Furniture	15000 PLC		313,010.68
Equipment & Furniture	15000 PT		5,000.00
Equipment - Digital & Other	15010 KPT		325,712.17
Equipment - Digital & Other	15010 PLC		184,550.71
Equiq.-Digital X-Ray new office	15011 KPT		27,595.69
Renovation KPT Office	15012 KPT		131,833.85
Equipment - KPT Office	15015 KPT		20,950.52
Electronic Medical Records	15020 PLC		172,649.37
Centricity Grp Mgm User Licens	15030 PLC		38,325.00
Citrix License	15031 KPT		6,012.91
Computers & Software	15100 KPT		148,354.02
MRI Digital Upgrade	15210 MRI		658,102.36
Accum Depreciation	16000 PLC		(1,833,822.79)

Total Property and Equipment 251,581.49

Other Assets

Deposit - KPT Property	14004 KPT		40,000.00
Kingsport Building Expense	14005 KPT		883,815.44
Deposit-Complex Technologies R	14006 PLC		(242.64)
Deposit - JK Investments	14007 PLC		3,234.36
Deposit -Kingsport Assets	14008 PLC		23,100.52

Total Other Assets 949,907.68

Total Assets \$ 3,411,909.09

LIABILITIES AND CAPITAL

Current Liabilities

401(k) Pr. Shar. Payable	20025 PLC	\$	375,000.00
Due to ROTA	20102 PLC		95.00

Total Current Liabilities 375,095.00

Unaudited - For Management Purposes Only

Long-Term Liabilities			
Total Long-Term Liabilities			0.00
Total Liabilities			375,095.00
Capital			
Capital	39010	470,651.00	
Net Income		2,566,163.09	
Total Capital			3,036,814.09
Total Liabilities & Capital			\$ 3,411,909.09

Unaudited - For Management Purposes Only



American College of Radiology

Magnetic Resonance Imaging Services of

WATAUGA ORTHOPAEDICS

**2410 SUSANNAH STREET
JOHNSON CITY, Tennessee 37601**

were surveyed by the
Committee on MRI Accreditation of the
Commission on Quality and Safety

The following magnet was approved

General Electric 12X HD EXCITE 2007

For

Spine, MSK

Accredited from:

December 09, 2013 through April 02, 2017

A handwritten signature in black ink, reading "Anthony J. Sculco, M.D.", is positioned above a horizontal line.

CHAIRMAN, COMMITTEE ON MRI ACCREDITATION

A handwritten signature in black ink, reading "Allen L. Blumberg, MD", is positioned above a horizontal line.

PRESIDENT, AMERICAN COLLEGE OF RADIOLOGY

MRAP# 06082-01

AFFIDAVIT

JAN 6 '17 AM 11:31

STATE OF TENNESSEE

COUNTY OF SULLIVAN

Marc Aiken, MD, being first duly sworn, says that he/she is the applicant named in this application or his/her/its lawful agent, that this project will be completed in accordance with the application, that the applicant has read the directions to this application, the Rules of the Health Services and Development Agency, and T.C.A. § 68-11-1601, *et seq.*, and that the responses to this application or any other questions deemed appropriate by the Health Services and Development Agency are true and complete.

 President
SIGNATURE TITLE

Sworn to and subscribed before me the 4 day of January, 2017, a Notary Public for Sullivan County, Tennessee.


NOTARY PUBLIC

My commission expires 2/29/2020.





State of Tennessee

Health Services and Development Agency

Andrew Jackson, 9th Floor, 502 Deaderick Street, Nashville, TN 37243

www.tn.gov/hsda

Phone: 615-741-2364

Fax: 615-741-9884

February 1, 2017

Jerry Taylor, Esq.
Burr & Forman, LLP
511 Union Street, Suite 2300
Nashville, TN 37219

RE: Certificate of Need Application -- Watauga Orthopaedics, PLC - CN1701-001
The initiation of MRI services and the addition of a 0.3 Tesla magnetic resonance imaging (MRI) scanner limited to the patients of Watauga Orthopedics, PLC located at 875 Larry Neil Way, Kingsport (Sullivan County), TN 37660. The estimated project cost is \$914,439.

Dear Mr. Taylor:

This is to acknowledge the receipt of supplemental information to your application for a Certificate of Need. Please be advised that your application is now considered to be complete by this office.

Your application is being forwarded to Trent Sansing at the Tennessee Department of Health for Certificate of Need review by the Division of Policy, Planning and Assessment. You may be contacted by Mr. Sansing or someone from his office for additional clarification while the application is under review by the Department. Mr. Sansing's contact information is Trent.Sansing@tn.gov or 615-253-4702.

In accordance with Tennessee Code Annotated, §68-11-1607, et seq., as amended by Public Chapter 780, the 60-day review cycle for this project will begin on February 1, 2017. The first 60 days of the cycle are assigned to the Department of Health, during which time a public hearing may be held on your application. You will be contacted by a representative from this Agency to establish the date, time and place of the hearing should one be requested. At the end of the 60-day period, a written report from the Department of Health or its representative will be forwarded to this office for Agency review. You will receive a copy of their findings. The Health Services and Development Agency will review your application on April 26, 2017.

Any communication regarding projects under consideration by the Health Services and Development Agency shall be in accordance with T.C.A. § 68-11-1607(d):

- (1) No communications are permitted with the members of the agency once the Letter of Intent initiating the application process is filed with the agency. Communications between agency members and agency staff shall not be prohibited. Any communication received by an agency member from a person unrelated to the applicant or party opposing the application shall be reported to the Executive Director and a written summary of such communication shall be made part of the certificate of need file.
- (2) All communications between the contact person or legal counsel for the applicant and the Executive Director or agency staff after an application is deemed complete and placed in the review cycle are prohibited unless submitted in writing or confirmed in writing and made part of the certificate of need application file. Communications for the purposes of clarification of facts and issues that may arise after an application has been deemed complete and initiated by the Executive Director or agency staff are not prohibited.

Should you have questions or require additional information, please contact me.

Sincerely,



Melanie M. Hill
Executive Director

cc: Trent Sansing, TDH/Health Statistics, PPA



State of Tennessee
Health Services and Development Agency

Andrew Jackson, 9th Floor, 502 Deaderick Street, Nashville, TN 37243
www.tn.gov/hsda Phone: 615-741-2364 Fax: 615-741-9884

MEMORANDUM

TO: Trent Sansing, CON Director
Office of Policy, Planning and Assessment
Division of Health Statistics
Andrew Johnson Tower, 2nd Floor
710 James Robertson Parkway
Nashville, Tennessee 37243

FROM: Melanie M. Hill
Executive Director

DATE: February 1, 2017

RE: Certificate of Need Application
Watauga Orthopaedics, PLC - CN1701-001

Please find enclosed an application for a Certificate of Need for the above-referenced project.

This application has undergone initial review by this office and has been deemed complete. It is being forwarded to your agency for a sixty (60) day review period to begin on February 1, 2017 and end on April 1, 2017.

Should there be any questions regarding this application or the review cycle, please contact this office.

Enclosure

cc: Jerry Taylor, Esq.



JAN 4 '17 PM 3:24

LETTER OF INTENT TENNESSEE HEALTH SERVICES AND DEVELOPMENT AGENCY

The Publication of Intent is to be published in the Kingsport Times News which is a newspaper of general circulation in Sullivan County, Tennessee, on or before January 4, 2017 for one day.

=====

This is to provide official notice to the Health Services and Development Agency and all interested parties, in accordance with T.C.A. § 68-11-1601 *et seq.*, and the Rules of the Health Services and Development Agency, that Watauga Orthopaedics, PLC, a Tennessee Professional Limited Liability Company intends to file an application for a Certificate of Need for the initiation of Magnetic Resonance Imaging (MRI) services at its Kingsport location and the acquisition of a MRI extremities unit. Services to be provided are MRI scans to both pediatrics and adults. The proposed MRI service and equipment will be owned and operated by Watauga Orthopaedics, PLC and will be limited to the patients of Watauga Orthopaedics, PLC. No facility licensure will be sought. The MRI will be located in existing space in Watauga Orthopaedic's clinical office space located at 875 Larry Neil Way, Kingsport, (Sullivan County) Tennessee. The total estimated project cost is \$950,000.00.

The anticipated date of filing the application is January 6, 2017.

The contact person for this project is Jerry w. Taylor, Attorney who may be reached at: Burr & Forman, LLP, 511 Union Street, Suite 2300, Nashville, Tennessee, 37219, 615-724-3247; jtaylor@burr.com

Signature

Date

The published Letter of Intent contains the following statement: Pursuant to T.C.A. § 68-11-1607(c)(1): (A) Any health care institution wishing to oppose a Certificate of Need application must file a written notice with the Health Services and Development Agency no later than fifteen (15) days before the regularly scheduled Health Services and Development Agency meeting at which the application is originally scheduled; and (B) Any other person wishing to oppose the application must file written objection with the Health Services and Development Agency at or prior to the consideration of the application by the Agency.

=====

*

Supplemental- #1 -Original-

Watauga Orthopaedics,
PLC

CN1701-001

SUPPLEMENTAL #1
January 20, 2017
1:59pm
JAN 20 17 PM 01 59

SUPPLEMENTAL RESPONSES

CERTIFICATE OF NEED APPLICATION

FOR

WATAUGA ORTHOPAEDICS, PLC

Initiation of In-House MRI Services

Sullivan County, Tennessee

Project No. CN1701-001

January 20, 2017

Contact Person:

**Jerry W. Taylor, Esq.
Burr & Forman, LLP
511 Union Street, Suite 2300
Nashville, Tennessee 37219
615-724-3247**

1. Section A, Executive Summary

How is the existing 303 SF proposed space for the additional MRI unit currently being utilized? Will the proposed MRI unit displace another service? If yes, where will this service relocate?

The existing space is unused. Therefore, it will not displace another service.

2. Section A, Project Details, Item 6B. (3)

Describe the relationship of the site to public transportation routes, if any, and to any highway or major road developments in the area. Describe the accessibility of the proposed site to clients/clients.

Watauga Orthopaedics is located off Gibson Mill Road, which is just off Stone Drive, a major thoroughfare in Kingsport. It is approximately 0.5 miles away from a public transportation bus stop. A map of the relevant portion of the bus route is attached following this response.

3. Section A, Project Details, Item 9

What medical group will be providing interpretation services? Will professional fees for MRI interpretation services by the identified radiologists be reimbursed by the applicant? If billing separately under their own provider certification/registration numbers, what assurances apply such that the radiologists will hold Medicare and Medicaid provider certification and will be contracted with the same TennCare MCO plans as the applicant? Please briefly discuss the arrangements planned in this regard.

Watauga contracts with RadSource, which is located in Nashville. They employ Radiologists who specialize in MRI interpretations.

For all government payors, Watauga bills the technical component and RadSource bills the professional component. RadSource contracts with all TennCare MCOs, Medicare, and TriCare.

For non-governmental payors, Watauga bills a global fee and pays RadSource for its services. These fees are reflected on the Projected Data Chart.

Please clarify if the applicant plans to contract with BlueCare and TennCare Select. If not, where are those patients currently being referred by the applicant for an MRI scan?

Watauga is in the process of negotiating with these payors to discuss contracts. The most recent meeting between representatives of the parties occurred on January 12, 2017. It is anticipated terms of agreement will be reached. In the meantime, and if the parties are unable to come to terms, the patients will be redirected to another local MRI provider who participates in these plans if the patient so chooses. Currently, Johnson City Medical Center and Holston Valley Medical Center are in network with these payors.

4. Section B, Need, Item 1 (Project Specific Criteria-Magnetic Resonance Imaging 5.B)

Please indicate when the applicant expects to meet 80% of 2,667 scans per year maximum capacity for the proposed MRI unit.

Assuming 10% annual growth Year 2 to Year 4, the MRI is expected to perform 2,156 scans in Year 4, which is 81% of its capacity. The capacity for the extremities MRI unit is assumed to be 2,667 scans per years, as demonstrated in the response to Sate Health Plan criterion 5, (b) on page 14 of the application.

5. Section B, Need, Item 1 (Project Specific Criteria-Magnetic Resonance Imaging 6.)

Please identify any other extremity MRIs in the service area.

According to the HSDA Equipment Registry, the following Extremities MRI units are located in the service area:

Appalachian Orthopedic Associates (Bristol, Sullivan County): 1 unit

Appalachian Orthopedic Associates (Johnson City, Washington County): 1 unit

6. Section B, Need. Item 3

The table on the bottom of page 17 projects 831 Year 1 MRI scans, but calculates to 832. Also, other parts of the application projects Year 1 MRI scans of 836. Please clarify.

The 831 projection number was from a preliminary projection that was later revised, but overlooked when revising the application draft. The references to 831 have been corrected to 836, and the projections have been corrected. A replacement page 17 is attached following this response.

in Virginia. The PSA and SSA accounted for 79.8% of the patient encounters at the Kingsport office in 2013-2015.

January 20, 2017

1:59pm

A county level map of the Tennessee counties comprising the PSA is attached as Attachment Section B, Need, 3.

Please complete the following tables, if applicable:

Primary Service Area Counties	Historical Utilization-County Residents*	% of Total Encounters
Sullivan	4,737	37.8%
Hawkins	1,850	14.8%
Washington	1,402	11.2%
Greene	302	2.4%
Carter	238	1.9%
PSA Sub-Total	8,529	68.2%
Secondary Service Area Counties		
Lee, VA	789	6.3%
Scott, VA	671	5.4%
SSA Sub-Total	1,460	11.7%
PSA and SSA Sub-Total	9,989	79.9%
Other Counties		
Other TN	321	2.6%
Other Non-TN	2,211	17.7%
Total	12,521	100%

*2013-2015, Kingsport office only

Primary Service Area Counties	Projected Utilization-County Residents	% of Total Scans
Sullivan	316	37.8%
Hawkins	124	14.8%
Washington	94	11.2%
Greene	20	2.4%
Carter	16	1.9%
PSA Sub-Total	570	68.2%
Secondary Service Area Counties		
Lee, VA	53	6.3%
Scott, VA	45	5.4%
SSA Sub-Total	98	11.7%
Other Counties		
Other TN	22	2.5%
Other Non-TN	170	17.6%
Total	836	100%

1. A. 1) Describe the demographics of the population to be served by the proposal.

There are no particular demographic characteristics of the PSA that would reasonably be considered special needs either increasing or decreasing the need for MRI services. The

7. Section B, Need. Item 4 (2)

Please confirm the applicant used the years 2017 and 2021 in the population table located in Attachment Section B, Need, 4A. If not, please revise.

The applicant used the years 2016-2020 in the population and demographics table because that is the most recent data available on the Division of Health Statistics website: <http://www.tn.gov/health/article/statistics-con>.

Any difference between the respective 2016-2020 and 2017-2021 population estimates should be relatively insignificant, and not of particular importance in light of the fact the key metrics for the need determination is not population-based.

8. Section B, Need. Item 5

The applicant notes in the utilization table in Attachment Section B. Need, 5 the scan per MRI unit in the proposed service area is 2,837 scans. However, 55,604 total MRI scans divided by 21.6 MRI units in the proposed service area calculates to an average of 2,574 rather than 2,837. Please clarify.

The discrepancy is due to the reflection of the two non-reporting MRI units, but not the inclusion of any scans performed by those units, in the average utilization calculation. A replacement page for the 2015 utilization numbers in Attachment Section B, Need, 5 is attached following this response. The average number of scans per unit of reporting units is 2,837 as stated in the application.

January 20, 2017

4:59 pm

MRI UTILIZATION IN SERVICE AREA -- 2015

County	Provider	Year	Number of Units (Reporting)	Fixed or Mobile	Total Scans (Reported)	Scans per Unit (Reported)	Total Gross Charges	Gross Charge per Scan
Carter	Medical Care, PLLC (Elizabethton)	2015	0*	Fixed (Shared)	126**	N/A	\$193,193.00	\$1,533.28
Carter	Sycamore Shoals Hospital	2015	1	Fixed (Shared)	1,944	1,944	\$8,336,068.00	\$4,288.10
Greene	Laughlin Memorial Hospital, Inc.	2015	2	Fixed	3,284	1,642	\$5,892,623.00	\$1,794.34
Greene	Takoma Regional Hospital	2015	1	Fixed	1,880	1,880	\$6,047,703.00	\$3,216.86
Greene Rawkins	Hawkins County Memorial Hospital	2015	0.6	Mobile (Part)	974	1,623	\$2,903,361.00	\$2,980.86
Sullivan	Appalachian Orthopaedic Associates, PC (No Report)	2015	N/R	Fixed	N/R	N/R	N/R	N/R
Sullivan	Bristol Regional Medical Center	2015	2	Fixed	8,452	4,226	\$24,929,670.00	\$2,949.56
Sullivan	Holston Valley Imaging Center, LLC	2015	3	Fixed	8,970	2,990	\$27,034,949.00	\$3,013.93
Sullivan	Holston Valley Medical Center	2015	1	Fixed	3,148	3,148	\$8,742,482.00	\$2,777.15
Sullivan	Indian Path Medical Center	2015	1	Fixed	3,173	3,173	\$14,815,682.00	\$4,669.30
Sullivan	Meadowview Outpatient Diagnostic Center	2015	1	Fixed	4,178	4,178	\$7,253,748.00	\$1,736.18
Sullivan	Sapling Grove Outpatient Diagnostic Center	2015	1	Fixed	2,158	2,158	\$3,706,021.00	\$1,717.34
Sullivan	Volunteer Parkway Imaging Center	2015	1	Fixed	1,413	1,413	\$4,279,316.00	\$3,028.53
Washington	Appalachian Orthopaedic Associates - Johnson City (No Report)	2015	N/R	Fixed	N/R	N/R	N/R	N/R
Washington	Franklin Woods Community Hospital	2015	1	Fixed	4,432	4,432	\$20,893,318.00	\$4,714.20
Washington	Johnson City Medical Center	2015	2	Fixed	6,467	3,234	\$30,147,670.00	\$4,661.77
Washington	Mountain States Imaging at Med Tech Parkway	2015	1	Fixed	2,666	2,666	\$12,223,222.00	\$4,584.85
Washington	Watauga Orthopaedics, PLC	2015	1	Fixed	2,465	2,465	\$3,565,010.00	\$1,446.25
TOTAL			19.6		55,604	2,837	\$180,964,036.00	\$3,254.51

Source: HSDA Medical Equipment Registry - 12/8/2016

*Same unit as Sycamore Shoals

**Included in Sycamore Shoals volume

Please complete the following service area historical utilization chart.

Service Area Historical MRI Utilization, 2013-2015

Provider	*Type	County	# of MRIs In 2015	2013	2014	2015	% of MRI 2,880 Std. in 2015*(1)	% Change
Sycamore Shoals Hospital	HOSP	Carter	1	1,719	1,880	1,944	67.5%	13.1%
Medical Care Plus, PLC	PO	Carter	0*(2)	0	0	0*(3)	N/A	N/A
Carter County Sub-Total			1	1,719	1,880	1,944	67.5%	13.1%
Laughlin Memorial Hospital	HOSP	Greene	2	3,159	3,248	3,284	57%	4%
Takoma Regional Hospital	HOSP	Greene	1	1,610	2,224	1,880	65.3%	16.8%
Greene County Sub-Total			3	4,769	5,472	5,164	59.8%	8.3%
Hawkins County Memorial Hospital	HOSP	Hawkins	0.6	877	807	974	56.4% *(4)	11%
Hawkins County Sub-Total			0.6	877	807	974	56.4%	11%
Bristol Regional Medical Center	HOSP	Sullivan	2	6,323	6,151	8,452	147%	33.7%
Holston Valley Imaging Center	HODC	Sullivan	3	8,787	6,516	8,970	104%	2.1%
Holston Valley Medical Center	HOSP	Sullivan	1	3,326	2,867	3,148	109%	-5.4%
Indian Path Medical Center	HOSP	Sullivan	1	2,807	2,913	3,173	110%	13%
Meadowview ODC	ODC	Sullivan	1	4,350	4,187	4,178	145%	-4%
Sapling Grove ODC	ODC	Sullivan	1	2,245	2,231	2,158	75%	-3.9%

Volunteer Parkway Imaging Cntr.	HODC	Sullivan	1	1,239	1,153	1,413	49%	14%
Sullivan County Sub-Total			10	29,077	26,019	31,492	109%	8.3%
Johnson City Medical Center	HOSP	Washington	2	6,617	6,575	6,467	112.3%	-2.3%
Mountain States Imaging	HODC	Washington	1	2,448	2,328	2,666	92.6%	8.9%
Franklin Woods Comm. Hospital	HOSP	Washington	1	3,529	3,772	4,432	154%	25.6%
Watauga Orthopedics	PO	Washington	1	2,337	2,221	2,465	85.6%	5.5%
Washington County Sub-Total			5	14,931	14,896	16,030	111%	7.4%
SERVICE AREA TOTAL			19.6	51,373	49,074	55,604	98.5%	8.2%

**HOSP= Hospital, PO = Physician Office, HODC = Imaging Center that is a hospital department, ODC = Outpatient Diagnostic Center*

Source: HSDA Equipment Registry

**(1) 3rd Year of service standard of 2,880 MRI procedures per year is applied*

**(2) This is a shared unit with Sycamore Shoals*

**(3) Utilization of 126 scans included in Sycamore Shoals total*

**(4) Utilization of 0.6 FTE divided by pro-rated capacity of 2,880 x 0.6 = 1,728*

Please do not include Appalachian Orthopaedic Associates in the above chart because there is no available data.

9. Section B, Need. Item 6

Please provide the applicant's historical and projected MRI utilization for both sites by completing the table below:

Historical and Projected MRI Utilization by Site

Site	2013 Procs.	2014 Procs.	2015 Procs.	2016 Procs.	2017 Procs.	2018 Procs.	2019 Procs.
Johnson City	2,337	2,221	2,465	2,328*	2,559	2,673	2,903
Kingsport					836	1,782	1,960
TOTAL	2,337	2,221	2,465				

* Watauga lost a surgeon in March of 2016

When does the applicant expect the MRI unit at the Johnson City site to meet the optimal MRI utilization standard of 2,880 procedures annually?

The utilization threshold will be met between 2018 and 2019.

When does the applicant expect the MRI unit at the Kingsport site to meet 80% of total capacity annually?

Assuming 10% annual growth Year 2 to Year 4, the MRI is expected to perform 2,156 scans in Year 4, which is 81% of its capacity. Capacity for the extremities MRI unit is calculated to be 2,667 annually. (See response to SHP criterion 5 (b) on page 14 of the application).

10. Section B, Economic Feasibility Item 1 (Project Costs Chart)

Are all the costs associated with the MRI equipment including installation of the equipment as detailed in Item 1.C. on page 21 of the application included in the Project Costs Chart? If not, please make the necessary adjustments.

Installation is included in the quoted price of \$550,000. This is reflected in paragraph 3 of the Terms and Conditions of the equipment quote, a copy of which is attached following this response. These pages were not included in the portions of the quote submitted with the application. The rigging costs (costs of getting the equipment off the delivery truck and into the space) are not included under the MRI quote. These are included in the cost of renovation (\$50,000) covered under the architects letter submitted with the application.

Customer: **Watauga Ortho**
Quote # 15034

January 20, 2017

1:59pm

Date: September 7, 2016



The following Terms and Conditions (4 pages); including disclaimers of warranties and limitations on seller's liability are part of this Agreement:

TERMS AND CONDITIONS

1. Payment:

a. This Quotation/Purchase Agreement ("Purchase Agreement") is valid only for the magnetic resonance equipment as listed on the attached Quotation (the "Equipment") to be located and used within the territory of the fifty states of the United States of America (the "Territory"); price, terms, warranty and all other conditions of this Purchase Agreement are void if the Equipment is located outside the Territory.

b. Qualification for payment terms offered ESAOTE NORTH AMERICA Esaote, Inc. ("Esaote") is conditioned upon the review and credit approval by Esaote.

c. Ten Percent (10%) deposit is required upon execution of this Purchase Agreement by Buyer. The remaining balance of the purchase price is due upon delivery and installation of the Equipment. Past due invoices will be assessed a monthly late payment fee at the lesser of (i) one and one-half percent (1.5%) and (ii) the maximum rate, if any, allowed by law on the outstanding balance and no Equipment requested in outstanding or future purchase agreements of Buyer will be shipped on credit until the past due invoice is paid in full. If any invoice of Buyer is past due, Esaote may, at its discretion, accelerate the terms of any or all outstanding invoices of Buyer. If Buyer elects to finance the Equipment through an intermediary, such financing arrangement, even if agreed to by Esaote, does not relieve Buyer of its obligation for payment to Esaote under this Purchase Agreement.

2. Delivery and Transportation: Esaote will notify Buyer of the approximate delivery date(s) of the Equipment, but Esaote does not guarantee a particular date of delivery. Delivery shall be C.I.P.

3. Installation: As part of the quoted price (except as otherwise indicated), Esaote provides the following for the Equipment covered by this Purchase Agreement.

a. **SITE EVALUATION ASSISTANCE** Esaote will furnish Buyer with the following site planning information and specifications for one initial site. (Testing of additional sites is available at a cost of \$2,500 per site):

S-Scan Site Planning Document

- **Site Review:** This review consists of an evaluation of available space, dimensional access for the magnet, anticipated effects of significant identified quantities of ferromagnetic materials, system acoustics, and other environmental aspects related to operation of the Equipment. The evaluation will normally be accomplished through an on-site evaluation by an Esaote representative.
- **Preliminary Sketch or Drawings:** These consist of a suggested space plan for the department or site showing room sizes, access ways and fringe field distribution. A suggested equipment plan will also be provided (and may be combined with the space plan) showing Equipment placement, floor loading, and heat dissipation for each element of the Equipment including placement of RF enclosure.
- **Equipment Installing Drawings:** These are final drawings consisting of plans approved by Buyer for equipment locations, RF Shielding (if applicable), electrical layout and other relevant MR System planning information. In addition, under Buyer request, Esaote will review specific parts of Buyer's site planning or construction documents to evaluate compliance with the current site requirements for the Equipment.

IMPORTANT: Site Evaluation services rely on and are subject to the completeness and accuracy of information provided by buyer, buyer's agents or representatives and conditions prevailing at the time of the site evaluation. Esaote's site evaluation services are intended only to assist buyer in fulfilling buyers' responsibility to ensure that the site complies with Esaote's applicable site specifications. Esaote expressly disclaims and buyer agrees that Esaote is not responsible to buyer for buyer's compliance with any law, regulation, administrative rule or other requirement related to the site evaluation and/or the placement of the equipment. The sole purpose of Esaote's site evaluation is to advise buyer of compliance with Esaote's site specifications.

b. OPERATION AND APPLICATIONS TRAINING

As an option to the included operator training, Esaote also can provide additional training of the Buyer's technical staff through on site applications support. This additional training is available as an option at our then-current standard rates and in accordance with then-current training program offerings and terms.

c. FINAL INSTALLATION AND SYSTEM CHECKOUT

The final installation process will commence after all pre-installation and site planning requirements. Any rigging required to install the Equipment will be at Buyer's expense. Upon completion of final installation and prior to turnover, Esaote will perform prescribed tests to determine that the Equipment meets the applicable performance specifications. These tests will be

Customer: **Watauga Ortho**
Quote # 15034

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1:59pm



Date: September 7, 2016

performed when assembly at the site is completed. Esaote performs final assembly and system checkout services during the hours of 8:00 a.m. to 5:00 p.m., Monday through Friday, excluding holidays.

d. THE FOLLOWING PROVISIONS ALSO APPLY

i. RIGGING

Buyer is responsible for all rigging expenses which include delivery and installation.

ii. SITE PREPARATION

Buyer is responsible for each of the following:

- Preparing the site(s) in which the Equipment is to be installed, in strict accordance with the site planning specifications furnished.
- Providing all architectural or seismic preparations, calculations or submittals for state and local approval, if required.
- Magnetic or radio frequency shielding additional to that provided as part of the Equipment, whether recommended by Esaote or desired by Buyer.
- Fire protection, air conditioning, site power, power quality maintenance, and all other environmental requirements and concerns to support initial magnet delivery and magnet installation and final assembly of the system.
- Providing a site and surroundings suitable for and undisturbed by installation and operation of a magnetic resonance system producing strong magnetic and electric fields.
- If applicable, providing and maintaining an appropriate telephone line at the site for connection to Equipment ARAS Package used to provide remote diagnostic service for the MR System.

iii. MAGNETIC RESONANCE SYSTEM MODIFICATION

Modifications to either the Equipment could significantly affect its performance or conformance to applicable Esaote specifications. Any modifications made to the Equipment, unless authorized in writing by or performed by Esaote will invalidate and terminate the warranty applicable to the Equipment, effective on the date of any such modification.

iv. SITE ACCESS CONTROL

The Equipment utilizes magnets of high field strength as well as radio frequency electromagnetic fields. The magnetic fields of the Equipment attract ferromagnetic articles and are capable of rapidly accelerating such articles toward the magnet, creating corresponding physical danger to persons in the vicinity and possible damage to the Equipment. In addition, the magnetic and radio frequency fields of the Equipment can adversely affect the operation of pacemakers, equipment containing magnetic reed switches, and aneurysm and surgical clips. Because of the foregoing, you are fully responsible for controlling access to the Equipment, and for all operations and protocols that use the Equipment or are conducted at the site.

4. Cancellation: Buyer may not cancel the Purchase Agreement following shipment of any portion of the Equipment. Prior to shipment, Buyer may cancel this Purchase Agreement only upon Esaote's written authorization. Authorized cancellations will incur a cancellation charge equal to ten percent (10%) of the purchase price. Esaote shall have the right to retain and setoff any deposit of Buyer against the cancellation charge or other costs incurred by Esaote as a result of the cancellation. Invoices not paid when due shall be subject to the same late charge as set forth in paragraph 1(payment) above.

5. Warranty:

- a. Esaote warrants to Buyer that Esaote Manufactured Equipment shall conform to specifications published therefore, and shall be free of defects in materials and workmanship for a period of one (1) year from the date of installation (unless a different time period is otherwise specified herein) and Non Esaote Equipment (i.e., Codonics), if purchased, will carry the original manufacturers warranty as a pass through to the customer during warranty period.
- b. This warranty shall be void for any Equipment which is modified (except as authorized by Esaote in writing or performed by Esaote), misused, abused, lost, stolen, neglected, tampered with, destroyed or damaged by accident, fire or other peril, subjected to abnormal or unusual electrical stress, improperly operated, improperly installed if installed by other than Esaote, serviced by unauthorized personnel or not maintained in accordance with the routine maintenance schedule set forth in any operating manual(s) for the Equipment.
- c. Esaote will repair or, at its sole option, replace using new or reconditioned parts and/or assemblies, all Equipment parts and assemblies which are defective and included under this warranty. Esaote reserves the right to perform such repair at the Buyer's site or an Esaote facility. Buyer shall return any replaced Equipment part to Esaote within ten (10) days of receiving the replacement part. All items of Equipment returned to Esaote for any reason, whether such items are within or without this warranty, must be accompanied by an Esaote Return Material Authorization (or "RMA") number.
- d. This warranty is valid only for Equipment located and operated in the Territory. This warranty is immediately void if the Equipment is located or used outside the Territory.
- e. Replacement parts for Equipment are warranted for the unexpired portion, if any, of the original warranty period for the part replaced.
- f. Esaote reserves the right to make changes in design and improvements on its products or parts, without assuming any obligation to install such products or parts in previously manufactured products, including Buyer's Equipment. Improvements to operating software will be provided, as available, at no charge provided the Equipment is under warranty or Buyer has

It is noted the applicant will obtain a \$550,000 commercial loan for the \$916,339 proposed project. However, please clarify how the remaining cost of the proposed project will be funded by the applicant. If funded by cash reserves, please provide a letter from the applicant's financial representative designating the amount of cash reserves for the proposed project. Since the provided financial documents are unaudited, a letter from a financial institution documenting the availability of the designated cash reserves is also required.

A letter from First Tennessee Bank verifying Watauga has cash reserves on deposit with First Tennessee in an amount sufficient to pay the out of pocket costs for the project is attached following this response.

January 20, 2017

1:59pm



All Things Financial.

January 19, 2017

Watauga Orthopaedics
2410 Susannah St.
Johnson City, TN 37601

Re: Deposit Balance

This letter is to confirm that as of January 19, 2017 Watauga Orthopaedics has over \$500,000 on deposit with First Tennessee Bank. The practice has maintained a balance in excess of this amount for many years and is fully available for use at their discretion.

If you have any further concerns or questions please contact Arch C. Jones at First Tennessee Bank, Private Client Services. 423-461-1786.

Sincerely,

A handwritten signature in black ink, appearing to read "Arch Jones".

Arch C. Jones
423-461-1786
First Tennessee
Private Client Services

The square footage for the MRI service should be accounted for by either including the fair market value of the space or the lease expense for the MRI service's square footage over the initial term of the lease, whichever is greater.

The lease rate for the Watauga space is \$25 per square foot, which reflects the fair market value of the space. The MRI will occupy 303 square feet of space. This equates to \$7,775 per year, or \$631.25 per month.

The current term of the lease is through May 31, 2018, or approximately 16 months from the date of this filing. A copy of the lease agreement was submitted with the application. Therefore the deemed cost of the space for the MRI is \$10,100 ($\631.25×303). A revised Project Cost Chart is attached following this response.

January 20, 2017

1:59pm
(Revised)

PROJECT COST CHART

A. Construction and equipment acquired by purchase:

1. Architectural and Engineering Fees	\$	8,000.00
2. Legal, Administrative, Consultant Fees	\$	45,000.00
3. Acquisition of Site	\$	-
4. Preparation of Site		
5. Total Construction Costs	\$	50,000.00
6. Contingency Fund	\$	5,000.00
7. Fixed Equipment (Not included in Construction Contract)	\$	550,000.00
8. Moveable Equipment (List all equipment over \$50,000.00)		
9. Other (Specify) <u>4 year service agreement</u>	\$	140,000.00

B. Acquisition by gift donation, or lease:

1. Facility (Inclusive of building and land)		
2. Building Only (FMV/lease cost of existing space)	\$	10,100.00
3. Land Only		
4. Equipment (Specify) _____		
5. Other (Specify) _____		

C. Financing Costs and Fees:

1. Interim Financing <u>Interest and UCC Filing Fee</u>	\$	103,339.00
2. Underwriting Costs		
3. Reserve for One Year's Debt Service		
4. Other (Specify) _____		

D. Estimated Project Cost
(A+B+C)

\$ 911,439.00

E. CON Filing Fee

\$ 15,000.00

F. Total Estimated Project Cost
(D + E)

TOTAL

\$ 926,439.00

11. Section B, Economic Feasibility Item 2

If needed, please revise the funding sources and submit a revised page 23.

A revised page 23 is attached following this response.

January 20, 2017**1:59pm****2. Identify the funding sources for this project.**

Check the applicable item(s) below and briefly summarize how the project will be financed. (*Documentation for the type of funding MUST be inserted at the end of the application, in the correct alpha/numeric order and identified as Attachment Section B-Economic Feasibility-2.*)

- ☒ A. Commercial loan – Letter from lending institution or guarantor stating favorable initial contact, proposed loan amount, expected interest rates, anticipated term of the loan, and any restrictions or conditions;

A funding letter is attached as Attachment Section B, Economic Feasibility, 2.

- ☐ B. Tax-exempt bonds – Copy of preliminary resolution or a letter from the issuing authority stating favorable initial contact and a conditional agreement from an underwriter or investment banker to proceed with the issuance;
- ☐ C. General obligation bonds – Copy of resolution from issuing authority or minutes from the appropriate meeting;
- ☐ D. Grants – Notification of intent form for grant application or notice of grant award;
- ☒ E. Cash Reserves – Appropriate documentation from Chief Financial Officer of the organization providing the funding for the project and audited financial statements of the organization; and/or

A letter from First Tennessee Bank verifying cash reserves is attached as part of Attachment Section B, Economic Feasibility, 2.

- ☐ F. Other – Identify and document funding from all other sources.

3. Complete Historical Data Charts on the following two pages—Do not modify the Charts provided or submit Chart substitutions!

Historical Data Chart represents revenue and expense information for the last *three (3)* years for which complete data is available. Provide a Chart for the total facility and Chart just for the services being presented in the proposed project, if applicable. Only complete one chart if it suffices.

Note that “Management Fees to Affiliates” should include management fees paid by agreement to the parent company, another subsidiary of the parent company, or a third party with common ownership as the applicant entity. “Management Fees to Non-Affiliates” should include any management fees paid by agreement to third party entities not having common ownership with the applicant.

Historical Data Charts for the overall practice and for the MRI service at the Johnson City location are attached following this page.

12. Section B, Economic Feasibility Item 3 (Historical Data Chart)

The Historical Data Chart for Watauga Orthopaedics, PLC is noted. The total operating expenses for the Year 2013, 2014, and 2015 is calculated incorrectly. Please correct and submit a revised Historical Data Chart.

A revised Historical Data Chart for Watauga Orthopaedics is attached following this response.

The Historical Data Chart for Watauga Orthopaedics, PLC MRI Service Only is noted. The total operating expenses for the Year 2013, 2014, and 2015 is calculated incorrectly. Please correct and submit a revised Historical Data Chart.

A revised Historical Data Chart for the existing MRI service is attached following this response.

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HISTORICAL DATA CHART (Revised)

☒ **Total Facility**
☐ **Project Only**

Give information for the last three (3) years for which complete data are available for the facility or agency. The fiscal year begins in January (Month)

	Year: 2013	Year: 2014	Year: 2015
A. Utilization/Occupancy Data (Specify unit of measure, e.g., 1,000 patient days, 500 visits) Pt. Visits	69,095 Visits	72,882 visits	78,201 visits
B. Revenue from Services to Patients			
1. Inpatient Services			
2. Outpatient Services	\$37,718,077.00	\$36,940,273.00	\$40,343,062
3. Emergency Services			
4. Other Operating Revenue			
Specify: _____			
Gross Operating Revenue	\$37,718,077.00	\$36,940,273.00	\$40,343,062.00
C. Deductions from Operating Revenue			
1. Contract Deductions	\$24,120,041.00	\$23,342,243.00	\$25,920,829.00
2. Provision for Charity Care			
3. Provision for Bad Debt			
Total Deductions	\$24,120,041.00	\$23,342,243.00	\$25,920,829.00
NET OPERATING REVENUE	\$13,598,036.00	\$13,598,030.00	\$14,422,233.00
D. Operating Expenses			
1. Salaries and Wages			
a. Direct Patient Care	\$4,360,406.00	\$4,539,351.00	\$4,912,353.00
b. Non-Patient Care			
2. Physicians' Salaries and Wages			
3. Supplies - Medical	\$743,241.00	\$ 904,256.00	\$ 979,952.00
4. Rent			
a. Paid to Affiliates	\$529,404.00	\$529,404.00	\$529,404.00
b. Paid to Non-Affiliates	\$116,189.88	\$116,189.88	\$116,189.88
5. Management Fees:			
a. Fees to Affiliates			
b. Fees to Non-Affiliates*	\$150,000.00	\$100,000.00	\$100,000.00
6. Other Operating Expenses	\$2,543,628.00	\$2,548,194.00	\$2,405,245.00
Total Operating Expenses	\$8,442,868.88	\$8,737,394.88	\$9,043,143.88
E. Earnings Before Interest, Taxes, and Depreciation	\$5,155,167.12	\$4,860,635.12	\$5,379,089.12
F. Non-Operating Expenses			
1. Taxes	\$47,486.00	\$38,354.00	\$ 44,805.00
2. Depreciation	\$106,150.00	\$222,101.00	\$ 25,347.00
3. Interest	0	0	0
4. Other Non-Operating Expenses			
Total Non-Operating Expenses	\$153,636.00	\$260,455.00	\$70,152.00
NET INCOME (LOSS)	\$5,001,531.12	\$4,600,180.12	\$5,308,937.12
G. Other Deductions			
1. Annual Principal Debt Repayment			
2. Annual Capital Expenditure			
Other Total Deductions	\$0.00	\$0.00	\$0.00
NET BALANCE	\$5,001,531.12	\$4,600,180.12	\$5,308,937.12
DEPRECIATION	\$0.00	\$0.00	\$0.00
FREE CASH FLOW (Net Balance + Depreciation)	\$5,001,531.12	\$4,600,180.12	\$5,308,937.12

January 20, 2017**1:59pm****HISTORICAL DATA CHART -- OTHER EXPENSES**

☒ Total Facility
☐ Project Only

<u>OTHER EXPENSE CATEGORY</u>	Year 2013	Year 2014	Year 2015
Accounting Fees	\$ 18,995	\$ 20,105	\$ 16,962
Advertising Expense	\$ 13	\$ -	\$ -
Alarm Service	\$ 720	\$ -	\$ 720
Answering Service	\$ 1,315	\$ 1,623	\$ 1,712
Archive Fees	\$ 59,258	\$ 74,904	\$ 79,112
Bank Charges	\$ 49,648	\$ 58,846	\$ 67,763
Billing Fees	\$ 435,381	\$ 538,479	\$ 565,828
Christmas Expense	\$ 6,538	\$ 1,368	\$ 5,214
Collection Agency Commissions	\$ 334	\$ 13,044	\$ 988
Conference and Conventions	\$ 675	\$ 849	\$ 2,065
Consulting and Professional Fees	\$ 193,198	\$ 155,753	\$ 161,366
Continuing Medical Education	\$ 30,302	\$ 17,210	\$ 34,908
Contracted Services	\$ 5,662	\$ 489	\$ 1,055
Credentialing Expense	\$ 2,815	\$ 4,650	\$ 2,477
Dues and Subscriptions	\$ 25,636	\$ 32,028	\$ 24,058
EMR Expense	\$ 22,262	\$ 18,912	\$ 24,168
Employee Relations	\$ 100	\$ -	\$ -
Flowers	\$ 6,022	\$ 11,977	\$ 3,089
Insurance Expense - General	\$ 42,427	\$ 39,294	\$ 54,106
Janitorial Expense	\$ 66,707	\$ 61,057	\$ 54,556
Laundry Expense	\$ 6,691	\$ 6,444	\$ 6,100
Lease - Other	\$ 6,277	\$ 4,737	\$ 5,892
Lease - Equipment	\$ 39,760	\$ 37,420	\$ 39,441
Legal Fees	\$ 1,525	\$ 15,233	\$ 8,580
License Fees	\$ 13,429	\$ 10,993	\$ 7,893
Malpractice Expense	\$ 258,020	\$ 137,216	\$ 155,118
Marketing/Promotions	\$ 73,034	\$ 105,282	\$ 49,664
Meals and Entertainment	\$ 19,620	\$ 23,667	\$ 23,016
Mileage Expense	\$ 29,982	\$ 30,950	\$ 36,926
Networking	\$ 11,412	\$ -	\$ 11,519
Patient Communication	\$ 5,821	\$ -	\$ -
Payroll Processing	\$ 9,584	\$ 10,000	\$ 11,079
Postage Expense	\$ 9,460	\$ 7,511	\$ 6,183
Printing Expense	\$ 11,624	\$ 13,791	\$ 9,034
Interpretation Fees	\$ 199,570	\$ 155,750	\$ 165,930
Recruitment Expense	\$ 3,166	\$ 4,664	\$ 3,217
Repairs and Maintenance - contracts	\$ 185,802	\$ 202,183	\$ 186,369
Repairs and Maintenance - Building	\$ 11,778	\$ 1,805	\$ 4,190
Repairs and Maintenance- Equipment	\$ 51,501	\$ 48,651	\$ 43,195
Software Expense and License	\$ 24,935	\$ 29,352	\$ 15,544
Supplies - Computer	\$ 429	\$ -	\$ -
Supplies - Non capital Equip	\$ 189,834	\$ 257,111	\$ 169,301
Supplies - Kitchen	\$ 1,911	\$ 1,708	\$ 2,609
Supplies - Office	\$ 14,400	\$ 20,516	\$ 14,045
Transcription Expense	\$ 104,270	\$ 70,733	\$ 68,444
Travel Expense	\$ 71,696	\$ 72,379	\$ 59,478
Waste Disposal	\$ 12,416	\$ 15,655	\$ 11,934
Contract Labor	\$ 32,895	\$ 19,341	\$ 7,008
Utilities	\$ 119,995	\$ 136,962	\$ 119,456
Telephone	\$ 54,545	\$ 57,510	\$ 63,686
Parking	\$ 238	\$ 42	\$ 247
TOTAL OTHER EXPENSES	\$ 2,543,628	\$ 2,548,194	\$ 2,405,245.00

*This management agreement ended December 31, 2015.

January 20, 2017**1:59pm****HISTORICAL DATA CHART (Revised)**

☐ Total Facility
☒ Project Only (MRI Service)

Give information for the last three (3) years for which complete data are available for the facility or agency. The fiscal year begins in January(Month)

	Year: 2013	Year: 2014	Year: 2015
A. Utilization/Occupancy Data (Specify unit of measure, e.g., 1,000 patient days, 500 visits)	2337 Scans	2221 scans	2465 scans
B. Revenue from Services to Patients	\$3,391,643.00	\$3,213,247.00	\$3,565,010.00
1. Inpatient Services			
2. Outpatient Services	\$3,391,643.00	\$3,213,247.00	\$3,565,010.00
3. Emergency Services			
4. Other Operating Revenue			
Specify: _____			
Gross Operating Revenue	\$3,391,643.00	\$3,213,247.00	\$3,565,010.00
C. Deductions from Operating Revenue			
1. Contract Deductions (Items 1-3 not segregated on books)	\$2,142,561.00	\$2,093,359.00	\$2,554,806.00
2. Provision for Charity Care			
3. Provision for Bad Debt			
Total Deductions	\$2,142,561.00	\$2,093,359.00	\$2,554,806.00
NET OPERATING REVENUE	\$1,249,082.00	\$1,119,888.00	\$1,010,204.00
D. Operating Expenses			
1. Salaries and Wages			
a. Direct Patient Care (All are direct patient care)	\$152,298.00	\$156,966.00	\$148,834.00
b. Non-Patient Care			
2. Physicians' Salaries and Wages			
3. Supplies	\$2,519.00	\$13,878.00	\$2,009.00
4. Rent			
a. Paid to Affiliates	\$24,147.00	\$24,147.00	\$24,147.00
b. Paid to Non-Affiliates			
5. Management Fees:			
a. Fees to Affiliates			
b. Fees to Non-Affiliates	\$18,482.00	\$12,638.00	\$8,610.00
6. Other Operating Expenses	\$518,485.00	\$328,820.00	\$360,439.00
Total Operating Expenses	\$715,931.00	\$536,449.00	\$544,039.00
E. Earnings Before Interest, Taxes, and Depreciation	\$533,151.00	\$583,439.00	\$466,165.00
F. Non-Operating Expenses			
1. Taxes			
2. Depreciation			
3. Interest			
4. Other Non-Operating Expenses			
Total Non-Operating Expenses	\$0.00	\$0.00	\$0.00
NET INCOME (LOSS)	\$533,151.00	\$583,439.00	\$466,165.00
G. Other Deductions			
1. Annual Principal Debt Repayment			
2. Annual Capital Expenditure			
Other Total Deductions	\$0.00	\$0.00	\$0.00
NET BALANCE	\$533,151.00	\$583,439.00	\$466,165.00
DEPRECIATION	\$0.00	\$0.00	\$0.00
FREE CASH FLOW (Net Balance + Depreciation)	\$533,151.00	\$583,439.00	\$466,165.00

January 20, 2017**1:59pm****HISTORICAL DATA CHART -- OTHER EXPENSES**

☐ Total Facility
☒ Project Only (MRI Service)

OTHER EXPENSE CATEGORY	Year 2013	Year 2014	Year 2015
(In 2014 Watauga stopped cost accounting many of the general practice expenses)			
Accounting Fees	\$ 403	\$ -	\$ -
Advertising Expense	\$ -	\$ -	\$ -
Alarm Service	\$ 70	\$ -	\$ -
Answering Service	\$ 124	\$ -	\$ -
Archive Fees	\$ -	\$ -	\$ -
Bank Charges	\$ 5,461	\$ -	\$ -
Billing Fees	\$ 47,871	\$ -	\$ -
Christmas Expense	\$ 417	\$ -	\$ -
Collection Agency Commissions	\$ -	\$ -	\$ -
Conference and Conventions	\$ 74	\$ -	\$ -
Consulting and Professional Fees	\$ 18,093	\$ -	\$ -
Continuing Medical Education	\$ -	\$ -	\$ -
Contracted Services	\$ 1,625	\$ -	\$ -
Credentialing Expense	\$ -	\$ -	\$ 10
Dues and Subscriptions	\$ 108	\$ 55	\$ 55
EMR Expense	\$ 2,449	\$ -	\$ -
Employee Relations	\$ -	\$ -	\$ -
Flowers	\$ 49	\$ -	\$ -
Insurance Expense - General	\$ -	\$ -	\$ -
Janitorial Expense	\$ 6,241	\$ 29	\$ 169
Laundry Expense	\$ 4,572	\$ 4,215	\$ 4,093
Lease - Other	\$ 296	\$ -	\$ -
Lease - Equipment	\$ 3,157	\$ -	\$ -
Legal Fees	\$ 55	\$ 360	\$ -
License Fees	\$ 3,999	\$ -	\$ 60
Malpractice Expense	\$ -	\$ -	\$ -
Marketing/Promotions	\$ 3,989	\$ -	\$ -
Meals and Entertainment	\$ 961	\$ -	\$ 84
Mileage Expense	\$ 34	\$ -	\$ 84
Networking	\$ -	\$ -	\$ -
Patient Communication	\$ 640	\$ -	\$ -
Payroll Processing	\$ -	\$ -	\$ -
Postage Expense	\$ 816	\$ 34	\$ 11
Printing Expense	\$ 346	\$ 11	\$ 179
Interpretation Fees	\$ 199,570	\$ 155,055	\$ 165,930
Recruitment Expense	\$ 13	\$ -	\$ -
Repairs and Maintenance - contracts	\$ 156,660	\$ 143,198	\$ 145,593
Repairs and Maintenance - Building	\$ 1,389	\$ -	\$ 38
Repairs and Maintenance- Equipment	\$ 9,713	\$ 719	\$ 639
Software Expense and License	\$ 1,669	\$ -	\$ -
Supplies - Computer	\$ 47	\$ -	\$ -
Supplies - Non capital Equip	\$ 8,565	\$ -	\$ -
Supplies - Kitchen	\$ 236	\$ -	\$ -
Supplies - Office	\$ 975	\$ -	\$ -
Transcription Expense	\$ -	\$ -	\$ -
Travel Expense	\$ 358	\$ -	\$ -
Waste Disposal	\$ 663	\$ -	\$ -
Contract Labor	\$ 1,805	\$ -	\$ -
Utilities	\$ 33,312	\$ 25,144	\$ 43,494
Telephone	\$ 1,657	\$ -	\$ -
Parking	\$ 3	\$ -	\$ -
TOTAL OTHER EXPENSES	\$ 518,485.00	\$ 328,820.00	\$ 360,439.00

Note: in 2014, Watauga stopped cost accounting many of the general practice expenses.

13. Section B, Economic Feasibility Item 4 (Projected Data Chart)

The Projected Data Chart for the proposed MRI service is noted. However, the total deductions for 2017 and 2018 are calculated incorrectly. Additionally, since the proposed project will not begin serving patients until October 2017, the first two full years after project completions should be 2018 and 2019. Please correct and submit a revised Projected Data Chart.

A revised Projected Data Chart is attached following this response. In addition to the errors noted, certain other entries were revised as well.

The Years for the columns representing "other expense category" on page 30 is incorrect. Please revise with Years 2018 and 2019 and submit a revised page 30.

This is corrected on the revised Projected Data Chart.

January 20, 2017**1:59pm****X Total Facility
Project Only****PROJECTED DATA CHART (Revised)**

Give information for the last two (2) years for which complete data are available for the facility or agency. The fiscal year begins in January (Month)

		Year:	Year:
		2018	2019
A.	Utilization/Occupancy Data (Specify unit of measure, e.g., 1,000 patient days, 500 visits) MRI Scans	836	1782
B.	Revenue from Services to Patients		
	1. Inpatient Services		
	2. Outpatient Services	\$1,200,830	\$2,559,665
	3. Emergency Services		
	4. Other Operating Revenue		
	Specify: _____		
	Gross Operating Revenue	\$1,200,830	\$2,559,665
C.	Deductions from Operating Revenue		
	1. Contract Deductions	\$811,958	\$1,730,753
	2. Provision for Charity Care	\$20,467	\$43,627
	3. Provision for Bad Debt		
	Total Deductions	\$832,425	\$1,774,380
	NET OPERATING REVENUE	\$368,405	\$785,285
D.	Operating Expenses		
	1. Salaries and Wages		
	a. Direct Patient Care	\$67,600	\$67,600
	b. Non-Patient Care	\$40,560	\$40,560
	2. Physicians' Salaries and Wages	\$0	\$0
	3. Supplies	\$7,200	\$8,200
	4. Rent		
	a. Paid to Affiliates	\$7,500	\$7,500
	b. Paid to Non-Affiliates		
	5. Management Fees:		
	a. Fees to Affiliates		
	b. Fees to Non-Affiliates		
	6. Other Operating Expenses	\$76,450	\$187,130
	Total Operating Expenses	\$199,310	\$310,990
E.	Earnings Before Interest, Taxes, and Depreciation	\$169,095	\$474,295
F.	Non-Operating Expenses		
	1. Taxes		
	2. Depreciation	\$55,000	\$55,000
	3. Interest	\$12,672	\$12,672
	4. Other Non-Operating Expenses		
	Total Non-Operating Expenses	\$67,672	\$67,672
	NET INCOME (LOSS)	\$101,423	\$406,623
G.	Other Deductions		
	1. Estimated Annual Principal Debt Repayment		
	2. Annual Capital Expenditure		
	Other Total Deductions	\$0	\$0
	NET BALANCE	\$101,423	\$406,623
	DEPRECIATION	\$0	\$0
	FREE CASH FLOW (Net Balance + Depreciation)	\$101,423	\$406,623

January 20, 2017**1:59pm****PROJECTED DATA CHART -- OTHER EXPENSES**

☐ Total Facility
☒ Project Only

<u>OTHER EXPENSE CATEGORY</u>	Year	2018	2019
1. Professional Services Contracts			
2. Contract Labor			
3. Imaging Interpretation Fees (Itemize all others below)		\$66,880	\$142,560
Maintenance		\$0	\$35,000
Certification/Licensure		\$3,000	\$3,000
Estimate Electrical Increase		\$6,570	\$6,570
TOTAL OTHER EXPENSES		\$76,450	\$187,130

14. Section B, Economic Feasibility Item 5.A.

Please revise responses to the gross charge, deduction from revenue, and average net charge from corrected Historical and Projected Data Chart and submit.

A replacement page 31 is attached following this response.

5. A. Please identify the project's average gross charge, average deduction from operating revenue, and average net charge using information from the Projected Data Chart for Year 1 and Year 2 of the proposed project. Please complete the following table.

	Previous Year	Current Year	Year One	Year Two	% Change (Current Year to Year 2)
Gross Charge (Gross Operating Revenue/Utilization Data)	N/A	N/A	\$1,436.40	\$1,436.40	0
Deduction from Revenue (Total Deductions/Utilization Data)	N/A	N/A	\$995.72	\$995.72	0
Average Net Charge (Net Operating Revenue/Utilization Data)	N/A	N/A	\$438.28	\$440.68	0.5%

- B. Provide the proposed charges for the project and discuss any adjustment to current charges that will result from the implementation of the proposal. Additionally, describe the anticipated revenue from the project and the impact on existing patient charges.

The average gross and net charges for the first two years are reflected above. The gross charges and Medicare allowable reimbursements are reflected below. The patient charges at the Johnson City location will not be affected by this proposal.

MRI			
CPT	Charge Amount	Medicare allowable	
72149	\$ 1,701	\$	295.09
72195	\$ 1,523	\$	342.88
73720	\$ 2,191	\$	460.29
73721	\$ 1,471	\$	217.40
72141	\$ 1,383	\$	206.63
72157	\$ 2,023	\$	350.06
73718	\$ 1,500	\$	333.15
72147	\$ 1,561	\$	295.55
72148	\$ 1,384	\$	205.66
72146	\$ 1,403	\$	206.63
72158	\$ 2,115	\$	348.78
73218	\$ 1,530	\$	333.15
73221	\$ 1,440	\$	217.08

- C. Compare the proposed charges to those of similar facilities in the service area/adjoining service areas, or to proposed charges of projects recently approved by the Health Services and Development Agency. If applicable, compare the proposed charges of the project to the current Medicare allowable fee schedule by common procedure terminology (CPT) code(s).

The average gross charges per scan for the existing providers in 2015 are reflected in Attachment Section B, Need, 5. The proposed gross charge of \$1,436.40 is the lowest of these.

Please indicate the 2015 gross charge, deduction from revenue, and average net charge for the applicant's current MRI unit.

Average Gross Charge: \$1,446.25

Average Deduction: \$1,036.43

Average Net Charge: \$409.82

15. Section B, Economic Feasibility Item 5.C.

Your response to this item is noted. Please compare the projected average gross charge per procedure for the project to the Gross Charge/Procedure Range by Quartile for all MRI providers, which can be found in the Applicant's Toolbox on the HSDA website.

Watauga Projected Avg. Gross Charge: \$1,436.40

HSDA Approved 1st Quartile: \$1,747.72

HSDA Approved Median: \$2,387.44

HSDA Approved 3rd Quartile: \$3,939.52

16. Section B, Economic Feasibility Item 6.B. Net Operating Margin Ratio

Please revise the Net Operating Ratio to reflect updated Historical and Projected Data Charts.

Year	2nd Year previous to Current Year	1st Year previous to Current Year	Current Year	Projected Year 1	Projected Year 2
Net Operating Margin Ratio	43%	52%	46%	46%	60%

A Replacement Page 32 is attached following this response.

6. A. Discuss how projected utilization rates will be sufficient to support the financial performance. Indicate when the project's financial breakeven is expected and demonstrate the availability of sufficient cash flow until financial viability is achieved. Provide copies of the balance sheet and income statement from the most recent reporting period of the institution and the most recent audited financial statements with accompanying notes, if applicable. For all projects, provide financial information for the corporation, partnership, or principal parties that will be a source of funding for the project. Copies must be inserted at the end of the application, in the correct alpha-numeric order and labeled as Attachment Section B-Economic Feasibility-6A. NOTE: Publicly held entities only need to reference their SEC filings.

As reflected on the Projected Data Chart, this proposal is profitable from the outset. Copies of the unaudited financial statements for Watauga Orthopaedics are attached as Attachment Section B, Need, 6A. There are no audited financial statements.

- B. Net Operating Margin Ratio – Demonstrates how much revenue is left over after all the variable or operating costs have been paid. The formula for this ratio is: (Earnings before interest, Taxes, and Depreciation/Net Operating Revenue).

Utilizing information from the Historical and Projected Data Charts please report the net operating margin ratio trends in the following table:

Year	2nd Year previous to Current Year	1st Year previous to Current Year	Current Year	Projected Year 1	Projected Year 2
Net Operating Margin Ratio	43%	52%	46%	75%	82%

Chart represents 2013, 2014 and 2015(current year) for the Johnson City MRI

Projected Y1 and Y2 reflect the MRI service, with the addition of the Kingsport unit.

17. Section B, Economic Feasibility Item 6.C. Capitalization Ratio

Since the applicant is expecting to take on a commercial loan for the proposed project, the applicant's long-term debt should be impacted. Please provide the capitalization ratio information for the applicant as requested in the application form.

As reflected on the Balance Sheet submitted with the application, as of December 31, 2015 through the date of this application, Watauga Orthopaedics, PLC had \$0 long-term debt. Thus, the capitalization ratio for that year and extending through the date of this application is 0.0%.

As of December 31, 2013-2015, Watauga's total capital (equity) was \$3,036,814. Using the most recent balance sheet provided (which is as of December 31, 2015) and the expected financing level of \$550,000, the projected capitalization ratio is 15.3%.

18. Section B, Economic Feasibility Item 9 Alternatives

Please discuss the alternative of only operating the MRI scanner at the Johnson City site and working towards meeting the optimal MRI utilization standard before adding another MRI scanner to the practice and service area.

There are several reasons why the status quo is a desirable alternative. The Johnson City MRI is located approximately 30 miles from the Kingsport office location, and patients, especially elderly patients, much prefer not having to travel to Johnson City for a MRI scan. Also, having the MRI unit in the same office location allows faster and easier scheduling, including same day scheduling if needed or requested by the patient.

There are only two extremities MRI units in the service area -- one in Sullivan County (in Bristol, not Kingsport) and one in Washington County. Having another extremities scanner in the service area is beneficial to physicians and patients..

As reflected in the response to Supplemental Question 9, the Johnson City Watauga MRI unit should reach the 2,880 benchmark sometime between 2018-2019. Waiting until that occurs offers no practical benefit to the patients. Finally, as reflected in the table in response to Supplemental Question 8, in 2015 the average number of scans per unit for all MRI providers in both Sullivan and Washington Counties exceeded the threshold of 2,880 scans per unit.

19. Section B, Orderly Development Item 2

It is noted Johnson City Medical Center was approved for the addition of a 1.5 Tesla magnetic Resonance Unit during the December 14, 2016 Agency meeting. If

approved, please describe the effect this proposal will have on the utilization of Johnson City Medical Center's recently approved 1.5 MRI.

Johnson City Medical Center's 2 existing MRI units operated at 112% of the utilization threshold in 2015. The addition of the third unit, without any increased utilization (which is unrealistic), would bring its 2015 average down to 2,156 scans per unit. While this is below the threshold, It nevertheless represents healthy utilization.

More importantly, John City is approximately 30 miles from the Watauga Kingsport office, and it is unlikely if any significant number of Watauga patients would utilize that MRI unit, regardless of whether the current proposal is approved or not. There should little to no impact on that newly approved MRI unit.

20. Section B, Orderly Development Item 7

Please indicate % of charity and self-pay as a percentage of the Projected Gross Operating Revenue.

Charity care and self-pay/bad debt are not separately tracked. Cumulatively, this is 1.7% of gross operating revenue..

21. Proof of Publication

Please attach a full page of the newspaper in which the notice of intent appeared with the mast and dateline intact or submit a publication affidavit from the newspaper that includes a copy of the publication as proof of the publication of the letter of intent.

A Publisher's Affidavit is attached following this response.

January 20, 2017

1:59pm

KINGSPORT TIMES-NEWS

PUBLICATION CERTIFICATE

Kingsport, TN

1/4/17

This is to certify that the Legal Notice hereto attached was published in the Kingsport Times-News, a daily newspaper published in the City of Kingsport, County of Sullivan, State of Tennessee, beginning in the issue of January 4, 2017, and appearing 1 consecutive weeks/times, as per order of _____

Watauga Orthopaedics

Signed Sheryl EdwardsNOTIFICATION OF INTENT TO APPLY FOR A
CERTIFICATE OF NEED

This is to provide official notice to the Health Services and Development Agency and all interested parties, in accordance with T.C.A. § 68-11-1601 et seq., and the Rules of the Health Services and Development Agency, that Watauga Orthopaedics, PLC, a Tennessee Professional Limited Liability Company intends to file an application for a Certificate of Need for the initiation of Magnetic Resonance Imaging (MRI) services at its Kingsport location and the acquisition of a MRI extremities unit. Services to be provided are MRI scans to both pediatrics and adults. The proposed MRI service and equipment will be owned and operated by Watauga Orthopaedics, PLC and will be limited to the patients of Watauga Orthopaedics, PLC. No facility licensure will be sought. The MRI will be located in existing space in Watauga Orthopaedics' clinical office space located at 875 Larry Neil Way, Kingsport, (Sullivan County) Tennessee. The total estimated project cost is \$950,000.00.

The anticipated date of filing the application is January 6, 2017.

The contact person for this project is Jerry W. Taylor, Attorney who may be reached at: Burr & Forman, LLP, 511 Union Street, Suite 2300, Nashville, Tennessee 37219, 615-724-3247.

(A) Any person wishing to oppose the application must file written objection with the Health Services and Development Agency at or prior to the consideration of the application by the Agency.

PUB1T: 1/4/17

STATE OF TENNESSEE, SULLIVAN COUNTY, TO-WIT:

Personally appeared before me this 4th day of January 2017, Sheryl Edwards

of the Kingsport Times-News and in due form of law made oath that the foregoing statement was true to the best of my knowledge and belief.



Janice Reuser

NOTARY PUBLIC

My commission expires 4-6-20

January 20, 2017

1:59pm

JAN 20 11 PM 1:59

AFFIDAVIT

STATE OF TENNESSEE

COUNTY OF SullivanNAME OF FACILITY: Watauga Orthopaedics, PLC

I, Marc Aiken, after first being duly sworn, state under oath that I am the applicant named in this Certificate of Need application or the lawful agent thereof, that I have reviewed all of the supplemental information submitted herewith, and that it is true, accurate, and complete.

Marc Aiken / President
Signature/Title

Sworn to and subscribed before me, a Notary Public, this the 19 day of January, 20 17
witness my hand at office in the County of Washington, State of Tennessee.

Martha D. Christensen
NOTARY PUBLIC

My commission expires 2/29/2020, _____.

HF-0043

Revised 7/02



Supplemental #2 -Original-

Watauga Orthopaedics,
PLC

CN1701-001

January 26, 2017

11:47 am

JAN 26 '17 11:47

SECOND SUPPLEMENTAL RESPONSES

CERTIFICATE OF NEED APPLICATION

FOR

WATAUGA ORTHOPAEDICS, PLC

Initiation of In-House MRI Services

Sullivan County, Tennessee

Project No. CN1701-001

January 26, 2017

Contact Person:

**Jerry W. Taylor, Esq.
Burr & Forman, LLP
511 Union Street, Suite 2300
Nashville, Tennessee 37219
615-724-3247**

1. Section B, Need. Item 4 (2)

Please revise the population table located in Attachment Section B, Need, 4A using 2017 as the current year (CY) and 2021 as the projected year (PY) and submit.

A revised population table is attached following this response.

Attachment Section B, Need, 4A (REVISED)

Demographic Variable/ Geographic Area	Department of Health/Health Statistics							Bureau of the Census				TennCare	
	Total Population-Current Year (2017)	Total Population-Projected Year (2021)	Total Population-% Change	*Target Population-Current Year	*Target Population-Project Year	*Target Population-% Change	Target Population Projected Year as % of Total	Median Age	Median Household Income	Person Below Poverty Level**	Person Below Poverty Level as % of Total	TennCare Enrollees	TennCare Enrollees as % of Total
Sullivan County	159,191	159,906	0.45%	128,222	129,518	1.01%	81%	44.3	\$40,346	27,858	17.5%	36,022	22.6%
Hawkins County	59,043	60,002	1.62%	46,948	48,370	3.03%	81%	43.4	\$36,927	11,277	19.1%	14,602	24.7%
Washington County	135,611	142,621	5.17%	108,607	114,497	5.42%	80%	39.8	\$42,817	24,546	18.1%	25,984	19.2%
Greene County	73,075	75,163	2.86%	58,827	61,076	3.82%	81%	43.7	\$35,196	14,980	20.5%	16,500	22.6%
Carter County	58,213	58,406	0.33%	47,030	47,518	1.04%	81%	43.6	\$33,213	13,738	23.6%	13,928	23.9%
Primary Service Area Total	485,133	496,098	2.26%	389,634	400,979	2.91%	81%	42.96	\$37,700	92,400	19.0%	107,036	22.1%
State of TN Total	6,887,572	7,179,512	4.24%	5,305,131	5,555,228	4.71%	77%	38.4	\$45,219	1,212,213	17.6%	1,565,932	22.7%

*The Target Population is the 18+ age group. Although Watauga will treat some pediatric cases, it is estimated that approximately 90% of scans will be for the adult population.

**The Census Bureau website does not provide the number of persons below poverty level. The totals in this column are calculated by percentage of individuals below poverty level in 2015, below poverty level in 2015 divided by total population in 2017.

Sources: <http://www.tn.gov/health/article/statistics-population>; <http://www.tn.gov/tenncare/topic/enrollment-data>; <http://factfinder.census.gov/faces/nav/jsf/pages/index.xhtml>

2. Section B, Economic Feasibility Item 5.A.

The chart on replacement page 31 indicating the gross charge, deduction from revenue, and average net charge from the Projected Data Chart is noted. However, the average net charge of \$438.28 in Year One appears to be incorrect. If necessary, please revise and submit a corrected page 31.

A corrected Replacement Page 31 is attached following this response.

5. A. Please identify the project's average gross charge, average deduction from operating revenue, and average net charge using information from the Projected Data Chart for Year 1 and Year 2 of the proposed project. Please complete the following table.

	Previous Year	Current Year	Year One	Year Two	% Change (Current Year to Year 2)
Gross Charge (Gross Operating Revenue/Utilization Data)	N/A	N/A	\$1,436.40	\$1,436.40	0
Deduction from Revenue (Total Deductions/Utilization Data)	N/A	N/A	\$995.72	\$995.72	0
Average Net Charge (Net Operating Revenue/Utilization Data)	N/A	N/A	\$440.68	\$440.68	0

- B. Provide the proposed charges for the project and discuss any adjustment to current charges that will result from the implementation of the proposal. Additionally, describe the anticipated revenue from the project and the impact on existing patient charges.

The average gross and net charges for the first two years are reflected above. The gross charges and Medicare allowable reimbursements are reflected below. The patient charges at the Johnson City location will not be affected by this proposal.

MRI			
CPT	Charge Amount	Medicare allowable	
72149	\$ 1,701	\$	295.09
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72158	\$ 2,115	\$	348.78
73218	\$ 1,530	\$	333.15
73221	\$ 1,440	\$	217.08

- C. Compare the proposed charges to those of similar facilities in the service area/adjoining service areas, or to proposed charges of projects recently approved by the Health Services and Development Agency. If applicable, compare the proposed charges of the project to the current Medicare allowable fee schedule by common procedure terminology (CPT) code(s).

The average gross charges per scan for the existing providers in 2015 are reflected in Attachment Section B, Need, 5. The proposed gross charge of \$1,436.40 is the lowest of these.

January 26, 2017

11:47 am

JAN 26 '17 AM 11:47


AFFIDAVIT

STATE OF TENNESSEE)

)

COUNTY OF DAVIDSON)

I, Jerry W. Taylor after first being duly sworn, state under oath that I am the applicant named in this Certificate of Need application or the lawful agent thereof, that I have reviewed all of the supplemental information submitted herewith, and that it is true, accurate, and complete.

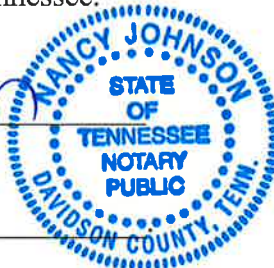


Name
Attorney for Watauga Orthopaedics, PLC

Sworn to and subscribed before me this the 26th day of January, 2017, a Notary Public in and for Davidson County Tennessee.



Notary Public



My Commission Expires: _____

My Commission Expires MAR 7, 2017